104

# INTELLECTUAL PROPERTY ANTITRUST PROTECTION ACT OF 1995



## HEARING

BEFORE THE

## COMMITTEE ON THE JUDICIARY HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

ON

## H.R. 2674

INTELLECTUAL PROPERTY ANTITRUST PROTECTION ACT OF 1995

MAY 14, 1996

## Serial No. 75



Printed for the use of the Committee on the Judiciary

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# INTELLECTUAL PROPERTY ANTITRUST PROTECTION ACT OF 1995

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**TUESDAY, MAY 14, 1996**

HOUSE OF REPRESENTATIVES,
COMMITTEE ON THE JUDICIARY,
*Washington, DC.*

The committee met, pursuant to notice, at 9:41 a.m., in room 2141, Rayburn House Office Building, Hon. Henry J. Hyde (chairman of the committee) presiding.

Present: Representatives Henry J. Hyde, Carlos J. Moorhead, George W. Gekas, Howard Coble, Charles T. Canady, Stephen E. Buyer, Martin R. Hoke, Fred Heineman, Steve Chabot, Bob Barr, Patricia A. Schroeder, Jack Reed, and Zoe Lofgren.

Also present: Alan F. Coffey, Jr., general counsel/staff director; Joseph Gibson, counsel; Perry Apelbaum, minority counsel; and Kenny Prater, clerk.

## OPENING STATEMENT OF CHAIRMAN HYDE

Mr. HYDE. The committee will come to order.

This morning we consider H.R. 2674, the Intellectual Property Antitrust Protection Act of 1995. I introduced this legislation on November 20, 1995, and nine members of this committee are cosponsors. H.R. 2674 would eliminate a court-created presumption that market power is always present for antitrust purposes when a product protected by an intellectual property right is sold, licensed, or otherwise transferred. In antitrust law, market power is the power to control prices or exclude competition.

In my view, the market power presumption for intellectual property is wrong because it is based on false assumptions. Because there are often substitutes for products covered by intellectual property rights or there is no demand for the protected product, an intellectual property right does not automatically confer the power to determine the overall market price of a product or the power to exclude competitors from the marketplace. As Justice O'Connor put it, and I quote, "A common misconception has been that a patent or copyright suffices to demonstrate market power. While a patent or copyright might help to give market power to a seller, it is also possible that a seller in that situation will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product."

I've been interested in this issue for many years. I would note that our former colleague, Hamilton Fish, was the author of predecessor House bills on this subject. Ham was very persistent in leading this effort in past years, and the intellectual property commu-

nity is indebted to him for his work in this, as in many other areas. The current proposal is narrower and more focused than some of the earlier proposals. All it does is overturn the presumption that a patent or copyright confers market power.

Because in earlier debates many misconceptions surrounded this bill, I want to dispel them at the outset. First, this bill does not create an antitrust exemption. To the contrary, it eliminates an antitrust plaintiff's ability to rely on a presumption of market power, which is usually not true, rather than providing actual proof of market power. Second, this bill does not in any way affect the remedies, including treble damages, that are available to an antitrust plaintiff when it does prove its case. Third, this bill does not change the law that tying arrangements are deemed to be per se illegal when the defendant has market power in the tying product. Rather, it simply requires the plaintiff to prove that the claimed market power does, in fact, exist before subjecting the defendant to the per se standard. Fourth, this bill does not legalize any conduct that is currently illegal.

Finally, it should be noted in April 1995 the antitrust enforcement agencies, the Department of Justice and the Federal Trade Commission, issued joint guidelines on the licensing of intellectual property that endorsed the policy embodied in H.R. 2674. They say that the DOJ and the FTC, and I quote, "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." That's from the "Antitrust Guidelines for the Licensing of Intellectual Property" at page 4. I believe that endorsement can only add strength to the arguments for this legislation.

[The bill, H.R. 2674, follows:]

I

104TH CONGRESS
1ST SESSION

# H. R. 2674

To modify the application of the antitrust laws to encourage the licensing and other use of certain intellectual property.

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IN THE HOUSE OF REPRESENTATIVES

NOVEMBER 20, 1995

Mr. HYDE (for himself, Mr. MOORHEAD, Mr. SENSENBRENNER, Mr. GEKAS, Mr. COBLE, Mr. SMITH of Texas, Mr. CANADY of Florida, Mr. BONO, Mr. BRYANT of Tennessee, and Ms. LOFGREN) introduced the following bill; which was referred to the Committee on the Judiciary

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# A BILL

To modify the application of the antitrust laws to encourage the licensing and other use of certain intellectual property.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

**SECTION 1. SHORT TITLE.**

This Act may be cited as the "Intellectual Property Antitrust Protection Act of 1995".

**SEC. 2. PROHIBITION OF MARKET POWER PRESUMPTION.**

In any action in which the conduct of an owner, licensor, licensee, or other holder of an intellectual property right is alleged to be in violation of the antitrust laws in

connection with the marketing or distribution of a product or service protected by such a right, such right shall not be presumed to define a market, to establish market power (including economic power and product uniqueness or distinctiveness), or to establish monopoly power.

**SEC. 3. DEFINITIONS.**

For purposes of this Act—

(1) the term "antitrust laws"—

(A) has the meaning given it in subsection (a) of the first section of the Clayton Act (15 U.S.C. 12(a)), except that such term includes section 5 of the Federal Trade Commission Act (15 U.S.C. 45) to the extent such section applies to unfair methods of competition; and

(B) includes any State law similar to the laws referred to in subparagraph (A); and

(2) the term "intellectual property right" means a right, title, or interest—

(A) in subject matter patented under title 35, United States Code; or

(B) in a work, including a mask work, protected under title 17, United States Code.

○

Mr. HYDE. I look forward to hearing from the Department of Justice Representative and the other outstanding witnesses we have before us, and I want to thank all of you for being here today.

[The opening statement of Mr. Hyde follows:]

OPENING STATEMENT OF HON. HENRY J. HYDE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF ILLINOIS, AND CHAIRMAN, COMMITTEE ON THE JUDICIARY

This morning we consider H.R. 2674, the "Intellectual Property Antitrust Protection Act of 1995." I introduced this legislation on November 20, 1995, and nine members of this Committee are cosponsors.

H.R. 2674 would eliminate a court-created presumption that market power is always present for antitrust purposes when a product protected by an intellectual property right is sold, licensed, or otherwise transferred. In antitrust law, "market power" is the power to control prices or exclude competition.

In my view, the market power presumption for intellectual property is wrong because it is based on false assumptions. Because there are often substitutes for products covered by intellectual property rights or there is no demand for the protected product, an intellectual property right does not automatically confer the power to determine the overall market price of a product or the power to exclude competitors from the marketplace. As Justice O'Connor put it:

> A common misconception has been that a patent or copyright . . . suffices to demonstrate market power. While [a patent or copyright] might help to give market power to a seller, it is also possible that a seller in [that situation] will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.

*Jefferson Parish Hospital Dist. No. 2* v. *Hyde,* 466 U.S. 2, 37 n.7 (O'Connor, J., concurring in the judgment).

I have been interested in this issue for many years. I would note that our former colleague, Hamilton Fish, was the author of predecessor House bills on this subject. Ham was very persistent in leading this effort in past years, and the intellectual property community is indebted to him for his work in this area. The current proposal is narrower and more focused than some of the earlier proposals. All it does is overturn the presumption that a patent or copyright confers market power.

Because in earlier debates many misconceptions surrounded this bill, I want to dispel those at the outset. First, this bill does not create an antitrust exemption. To the contrary, it eliminates an antitrust plaintiff's ability to rely on a presumption of market power, which is usually not true, rather than providing actual proof of market power. Second, this bill does not in any way affect the remedies, including treble damages, that are available to an antitrust plaintiff when it does prove its case. Third, this bill does not change the law that tying arrangements are deemed to be per se illegal when the defendant has market power in the tying product. Rather, it simply requires the plaintiff to prove that the claimed market power does, in fact, exist before subjecting the defendant to the per se standard. Fourth, this bill does not legalize any conduct that is currently illegal.

Finally, it should be noted that in April, 1995, the antitrust enforcement agencies, the Department of Justice and the Federal Trade Commission, issued joint guidelines on the licensing of intellectual property that endorse the policy embodied in H.R. 2674. They say that the DOJ and the FTC:

> will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power.

*Antitrust Guidelines for the Licensing of Intellectual Property* at 4. I believe that endorsement can only add strength to the arguments for this legislation. I look forward to hearing from the Department of Justice representative and the other outstanding witnesses we have before us, and I want to thank all of them for being here today.

Mr. HYDE. Does the gentlelady from Colorado have an opening statement?

Mrs. SCHROEDER. Mr. Chairman, I would ask unanimous consent to put the opening statement of the ranking minority member, Mr. Conyers, in the record and I will defer because I know you've got a lot to do this morning. Thank you.

Mr. HYDE. Well, I thank you, and without objection the statement of Mr. Conyers will be put in the record.

[The prepared statements of Mr. Conyers and Ms. Jackson Lee follow:]

PREPARED STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

I come into this hearing with an open mind, willing to listen to the arguments offered by both sides of this debate.

At the same time, I believe the very strong burden of proof lies with those who advocate making statutory changes to the antitrust laws. The antitrust laws are in a very real sense the charter of our economic liberty, and before we take the very unusual step of amending these laws for all time, we ought to have a very good reason for doing so.

In my view legislative proponents will need to persuade us that applying a presumption of market power to holders of intellectual property licenses truly impedes innovation, and the legislative fix they propose will not cause any harm or inconsistency in the antitrust laws.

I also come into these hearings with a very strong bias against unnecessary tying relationships. We have already seen the benefits the antitrust laws brought to the computer industry by forcing hardware and software to be sold in separate components: more competition, greater innovation, and lower prices. I'm concerned that if we eliminate the presumption of market power, we may well be making it easier for intellectual property holders to leverage their patent or copyright into other lines of business.

Finally, I am concerned that the Committee not be perceived as being solely sympathetic to those who would make it more difficult to initiate antitrust actions, which this bill appears to do. I would therefore hope we could also spend some time looking at problems in other areas of antitrust law, such as vertical price fixing as well as review the continued need for antitrust exemptions for baseball and insurance. If we are serious about amending the antitrust laws, we ought to be evenhanded and comprehensive in our review.

Thank you Mr. Chairman, and I look forward to today's testimony.

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PREPARED STATEMENT OF HON. SHEILA JACKSON LEE, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS

This is an important hearing today on legislation, H.R. 2674, the Antitrust Intellectual Property Act of 1995, that potentially could have serious implications on American creativity and on the American economy. This legislation involves two issues that are critically important as we enter into a new century, that is the type of restrictions on intellectual property owners and the standard of review utilized by government agencies such as the Department of Justice and the Federal Trade Commission in analyzing certain corporate behavior.

Currently, the federal courts have ruled in several cases, namely the Data General Corporation case, that there is a presumption of market power by a seller, who holds an intellectual property right and requires buyers of such product to also purchase other products from the seller.

This legislation states there will be no presumption of market power in antitrust actions brought against holders of an intellectual property right. The supporters of this legislation argue that there should not be a presumption of market power because many substitutes are available for most products and, in some cases, there may not be a demand for a particular product. Furthermore, supporters of the legislation argue that this presumption results in courts utilizing a "per se" antitrust analysis that does not give a defendant an opportunity.to prove that there is a justifiable competitive reason for tying the purchase of other products to the right to purchase the patented product.

I am aware that the Justice Department and the Federal Trade Commission issued guidelines stating that they will not necessarily presume that the holder of an intellectual property right has market power in that particular product.

There are also many opponents of this legislation who argue that this presumption of market power is necessary to foster innovation in many industries, particularly high-tech industries such as the computer industry, and the telecommunications industry. The opponents of the legislation also state this presumption is a rebuttable presumption and requires the holder of the intellectual property right to prove that they do not have market power.

This legislation is controversial and I welcome the opportunity to examine both sides of the issue. We have an excellent panel of witnesses who are experts on antitrust law and intellectual property law as well as business executives who can give us a first-hand view of the impact of current law on the competitive environment and what is likely to happen if this legislation becomes law.

Perhaps, we can find some common ground between these two view points on this legislation. I look forward to the testimony on these important issues.

Mr. HYDE. Mr. Moorhead, do you have an opening statement?

Mr. MOORHEAD. I have a very short statement.

Mr. HYDE. You're more than welcome to make it, and even lengthen it if you wish.

Mr. MOORHEAD. Well, thank you, Mr. Chairman. I want to commend my friend and chairman for his leadership in introducing H.R. 2674, the Intellectual Property Antitrust Protection Act.

I'm an original cosponsor of the bill and I've supported similar legislation in past Congresses. The hostility reflected in some court decisions for intellectual property licensing is outdated and counterproductive to our Nation's economy. The U.S. Constitution itself recognizes that intellectual property rights should exist as rewards for innovation and creativity. These are not monopolies; rather, they are legally granted, limited property rights. It is indeed ironic that this incentive system has been undermined by superficial antitrust analysis. A tying arrangement that genuinely forces a buyer to purchase an unwanted product should remain a violation of the Federal antitrust laws. But a proposed package sale, where the buyer is free to go elsewhere and choose from many other substitute products, is not anticompetitive coercion: it is competitive and efficient.

It is time we resolved these lingering questions which serve to discourage American companies from undertaking research and development and from marketing their discoveries in the most practical manner. I look forward to the testimony which we will receive this morning and I hope that the committee will soon mark up this legislation.

Mr. HYDE. Thank you, Mr. Moorhead. Does anybody else have any opening statements to make?

Seeing none, our first panel of witnesses consists of the Commissioner of Patents and Trademarks, Mr. Bruce Lehman, and the Principal Deputy Assistant Attorney General from the Antitrust Division, Joel Klein. Commissioner Lehman served on the staff of this committee from 1974 to 1983. From 1983 to 1993, he was in private practice in Washington with the law firm of Swidler & Berlin. Since 1993, he has served as Commissioner of Patents and Trademarks.

Bruce, it's always nice to have one of our alumni back with us and we certainly welcome you here today.

Deputy Assistant Attorney General Klein clerked for Supreme Court Justice Lewis Powell before going into private practice from 1976 to 1993. From 1993 to 1995, he served as Deputy Counsel to the President. In 1995 he took his present position in the Antitrust

Division and, Mr. Klein, we certainly look forward to hearing from you.

Mr. Lehman, we will recognize you. If your statement can be summarized in 5 minutes, that's fine. We won't cut you off, but if you could give us a summary in 5 minutes and then know that your full statement will be incorporated into the record and, similarly, when we get to you, Mr. Klein, if you can summarize. But, again, do tell us what you want to tell us.

Mr. Lehman.

**STATEMENT OF BRUCE A. LEHMAN, ASSISTANT SECRETARY OF COMMERCE AND COMMISSIONER OF PATENTS AND TRADEMARKS, PATENT AND TRADEMARK OFFICE, U.S. DEPARTMENT OF COMMERCE**

Mr. LEHMAN. Thank you, Mr. Chairman. It's really a pleasure to be back here again in a surrounding that is so familiar to me and feels very much like home.

First, I would like to just say that the Antitrust Guidelines that you spoke about relating to intellectual property, I think represent a very excellent spirit of cooperation between the Commerce Department and the Justice Department. Those guidelines were developed in consultation with us at the Patent and Trademark Office. Assistant Attorney General Anne Bingaman was always very sensitive to our concerns, and, I think, as a result they've been very widely received in a very positive manner in the business community.

I'd also like to make the point about intellectual property, and that is reflected, really, in those guidelines: Intellectual property is not really a monopoly—it's simply a property right and something that, otherwise, would be very difficult to define as property because it is intangible. And if your going to have commerce in intangibles in this day and age, you've got a property. Property is the very essence of capitalism in free markets and that's all that the intellectual property system does: it provides what would otherwise be very intangible and very difficult to trade in commerce with the legal tangibility needed to have a marketplace.

Now, H.R. 2674 clarifies the enforceability of intellectual property rights without creating an exemption from the antitrust laws. All the remedies remain in place, and those practices that are now deemed to be per se illegal will continue to be so. But where market power is an issue, it must be demonstrated, rather than presumed, that the accused holder of intellectual property rights enjoys market power. Intellectual property rights, such as patents and copyrights, do not convey monopoly power. As in any other property right, they merely enable holders to exclude others from trespassing.

As a consequence, the owner of a patent does not necessarily obtain market power merely by ownership. It is the use of the patent right that determines whether the antitrust laws were violated, just as it is with any other kind of property. And what holds true for patents is even more so true for copyrights because the scope of copyright exclusivity is even more limited. I like to use the example, sometimes, of our walking across the street and standing in front of the Capitol Building, in the same spot with a camera. If

I were to take a picture and then passed the camera to you, Mr. Chairman, and then to Mr. Moorhead, having all taken pictures of the same object, the Capitol Building, in the same camera using the same role of film—we'd each have a copyright on our separate pictures. That shows how limited that right is and it also shows the room for competition that there is. Obviously, we could try to sell all three of our pictures to a buyer at the same time. All we have in the copyright is the property right in that picture that we took, which we deserve; it's sort of essential fairness.

Like the antitrust laws, patent, trademark and copyright laws promote competition. Patent laws convey a limited period of exclusivity to an inventor to afford the opportunity of commercially exploiting a patented invention in exchange for the public disclosure of technology and that right is very essential to obtaining the investment in today's modern world that is necessary to bring about a commercial technology. Antitrust laws, on the other hand, promote innovation by maintaining open markets where an inventor is given the opportunity to recoup his R&D investments and to obtain a return in the form of profits.

Unfortunately, there has been a perception that intellectual property laws and antitrust laws are in conflict, and that was created by several Supreme Court and lower Federal court decisions. Even though recent decisions by the Federal circuit and others have not followed the unwarranted presumption that patents and copyrights automatically confer market power on the intellectual property owner, our business community may be understandably reluctant to use its intellectual property in ways that could maximize its return. Innovators, therefore, may be disadvantaged because intellectual property rights are only as good as the available enforcement remedies.

As long as there is no certainty in this area of law, conflicting judicial opinions will continue to discourage, complicate and delay the enforceability of intellectual property rights. As a result, American businesses may well forgo agreements that could, for example, cut costs by developing efficient distribution schemes for functionally related products. The specter of antitrust liability may even deter small business entities from developing new technologies in the first place. The threat of treble damages in an antitrust lawsuit is a powerful disincentive to an inventor to invest time and financial resources in developing a product that cannot be licensed efficiently and effectively. This is particularly true in high technology industries whose products become quickly obsolete.

Antitrust laws should not be feared as discriminating against high technology innovators by treating them more restrictively merely because they hold patents and copyrights. But let me make it clear that we do need antitrust enforcement in this area just as we do in other areas of property—physical property. Intellectual property owners should be treated in the same evenhanded manner that any other owner of a property right is treated. Intellectual property creates the incentive for investment by providing the means to obtain appropriate returns without undue interference by third parties.

By eliminating the presumption of market power, H.R. 2674 would reduce the likelihood that antitrust claims would be brought

against intellectual property owners who should not be subject to antitrust liability. Like the Department of Justice, the Department of Commerce supports the substance of H.R. 2674. This is especially so, as it is the mission of our Department of Commerce to create jobs and opportunities for all Americans by encouraging inventorship and entrepreneurship and to help new businesses—American businesses—find new avenues for growth and success. However, as the bill affects the application of the antitrust laws, Mr. Chairman, I feel it necessary to defer to my colleague, Mr. Klein from the Department of Justice, on the exact need for the legislation itself and I'm sure you'll appreciate that Mr. Klein has been quite generous, as has Assistant Attorney General Anne Bingaman, in not interfering with our administration of the patent and trademark laws, and I think we have to defer to them ultimately on the fine-tuning of this legislation. Thank you very much, Mr. Chairman.

[The prepared statement of Mr. Lehman follows:]

Prepared Statement of Bruce A. Lehman, Assistant Secretary of Commerce and Commissioner of Patents and Trademarks, Patent and Trademark Office, U.S. Department of Commerce

Mr. Chairman and Members of the Committee: I am pleased to appear today to testify on H.R. 2674, the "Intellectual Property Antitrust Protection Act of 1995." This bill would eliminate a court-created presumption of market power attributed to holders of patented inventions or copyrighted works in actions involving alleged violations of the antitrust laws. Market power is the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time.

Intellectual property laws and antitrust laws essentially share the common purpose of encouraging innovation, competition and consumer welfare. H.R. 2674 clarifies the enforceability of intellectual property rights, without creating an exemption from the antitrust laws. All the remedies remain in place, and those practices that are now deemed to be *per se* illegal will continue to be so. But, where market power is an issue, it must be demonstrated, rather than presumed, that the accused holder of the intellectual property right enjoys market power.

Intellectual property rights, such as patent and copyrights, do not convey monopoly power. As in any other property right, they merely enable their holders to exclude others from trespassing. As a consequence, the owner of a patent does not necessarily obtain market power merely by ownership. It is the use of the patent right that determines whether the antitrust laws were violated. And what holds true for patents is even more so for copyrights, as their scope of exclusivity is more limited.

The aims of the patent and copyright laws are not inconsistent with those of the antitrust laws. Both promote technological innovation for the benefit of society at large. Patent laws convey a limited period of exclusivity to an inventor to afford the opportunity of commercially exploiting the patented invention in exchange for public disclosure of the technology. Antitrust laws, on the other hand, promote innovation by maintaining open markets where an inventor is given the opportunity to recoup his R&D investments and to obtain a return in the form of profits.

Unfortunately, the perception that intellectual property laws and antitrust laws are in conflict was created by several Supreme Court and lower Federal court decisions. Even though recent decisions by the Federal Circuit and others have not followed the unwarranted presumption that patents and copyrights automatically confer market power on the intellectual property owner, our business community may be understandably reluctant to use its intellectual property in ways that could maximize its return. Our innovators may thereby be disadvantaged, because intellectual property rights are only as good as the available enforcement remedies.

As long as there is no certainty in this area of law, conflicting judicial opinions will continue to discourage, complicate and delay the enforceability of intellectual property rights. As a result, American businesses may well forego agreements that could, for example, cut costs by developing efficient distribution schemes for functionally related products. The specter of antitrust liability may even deter small business entities from developing new technologies in the first place. The threat of treble damagesin an antitrust suit is a powerful disincentive to an inventor to invest time and financial resources developing a product that cannot be licensed effi-

ciently and effectively. This is especially true in high-technology industries whose products become quickly obsolete.

The "Antitrust Guidelines for the Licensing of Intellectual Property," issued by the Department of Justice and the Federal Trade Commission in April, 1995, clearly reaffirmed the principle espoused in earlier Antitrust Enforcement Guidelines, namely, that the existence of an intellectual property right does not, by itself, give rise to a presumption of market power. As the Guidelines noted, "[a]lthough the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power." The Guidelines, however, also acknowledged that the law is unclear on this issue.

Antitrust laws should not be feared as discriminating against high technology innovators by treating them more restrictively, merely because they hold patents and copyrights. Intellectual property owners should be treated in the same even-handed manner as any other owner of a property right. Intellectual property creates the incentive for investment by providing the means to obtain appropriate returns without undue interference by third parties.

By eliminating the presumption of market power, H.R. 2674 would reduce the likelihood that antitrust claims would be brought against intellectual property owners who should not be subject to antitrust liability. Those who would quarrel with a particular marketing practice by a patent or copyright holder would be required to assume their proper burden of proof and courts would have to evaluate practices involving intellectual property rights under the same antitrust principles that are applied to practices involving other forms of property. In that way, a factual assessment would be required whether the holder of an intellectual property right has market power within an economically significant market in the same fashion as is done in antitrust cases in general.

Like the Department of Justice, the Department of Commerce supports the substance of H.R. 2674. This is especially so, as it is the mission of the Department of Commerce to create jobs and opportunities for all Americans by encouraging inventorship and entrepreneurship, and to help American businesses find new avenues for growth and success. However, as the bill affects the application of the antitrust laws, we defer to the Department of Justice on whether there is a need regarding its enactment, or whether the courts should continue to develop this area of the law.

Mr. HYDE. Thank you very much, Mr. Lehman.

Mr. Klein.

## STATEMENT OF JOEL I. KLEIN, DEPUTY ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, U.S. DEPARTMENT OF JUSTICE

Mr. KLEIN. Thank you, Mr. Chairman, members of the committee. It is a delight for me to be here this morning to be able to present the views of the Department of Justice on H.R. 2674.

I want to start with important common ground, Mr. Chairman. You, yourself, on numerous occasions, have talked about the importance of intellectual property rights as a basic building block and cornerstone of the American economy. It is a view that, I think, Mr. Lehman has rigorously protected and worked hand-in-glove with us at the Department of Justice over the course of this administration. We are grateful for his cooperation and, indeed, appreciate your leadership on this issue, Mr. Chairman.

With respect to the specific bill that is before us this morning, section 2 of that bill, as you have pointed out, indicates that there would be no presumption of market power based on the mere existence of intellectual property rights. As a legal proposition, Mr. Chairman, we believe that view is absolutely unassailable and, indeed, is a significant legal proposition. As you pointed out, of course, we embody that view expressly in the intellectual property

guidelines that we adopted last year and set it forward with the same kind of clarity and forcefulness that's reflected in H.R. 2674.

And I would say, Mr. Chairman, I especially admire the conciseness and the directness of this bill. It is at a minimum refreshing, and perhaps more than that, to see a bill that can be done on one page, and so I commend this as a model to political scientists and students of government throughout the world.

Mr. HYDE. Mr. Klein, if you persist in those comments I may have trouble keeping my staff at their present salary. [Laughter.]

Mr. KLEIN. Mr. Chairman, it seems to me only the most talented staff can get complicated thoughts into a single page. I think less talented people would take more time to do it, so I think they are well-deserving of the remuneration they receive, sir.

I think the point has been made by yourself and other members of the committee that the concern basically arose out of tying cases and the proposition that in a tying arrangement, the mere existence of intellectual property rights is sufficient market power to condemn as an antitrust violation, a tying arrangement. And as the Commissioner has said, you've said, and our guidelines indicate, we think that's a mistake in view of the law. It also has implications in other vertical relationships involving potential distribution issues, exclusive dealing and the like. It's my surmise, having studied the case law in this area, that to some degree the confusion arose based on confused notions of the tying doctrine itself, that this has more to do—the decision like *Digidyne*, which is the principal decision embodying the presumption that we're here to talk about this morning—that this arose, really, out of a confusion in the tying doctrine more generally.

And I think that confusion has been worked out in the courts in terms of a market power screen, and so I think to some extent we are looking at a problem that is a problem of, sort of, the evolution of the antitrust laws. And that brings me to my third and final point. It is a rare occasion—just as it's rare to see a bill in a single page—it's a rare occasion to see somebody who is as supportive as we are with respect to the substance of the bill, nonetheless wanting to sound a real note of caution about the need for enacting this bill into law. And our principal concern, as I say, has nothing to do with the substance or the merits of the argument, it has to do with the nature of the antitrust laws. The antitrust laws are in some respects—indeed they, too—certainly the Sherman Act which is the key there—they can be written on one short page, indeed on one side of a page. And the genius of that law that the Congress in 1890 realized, is that the courts are able to adjust the law to the changes in our economic situation, that economies do grow and change, that the world, in terms of the global market, evolves, and that, therefore, a static view of antitrust law would be a great mistake.

And I know this committee, Mr. Chairman, has had many discussions about whether or not there should be a living Constitution, and I don't want to talk about that today, but I do believe there is a living charter in antitrust law and that the American courts over the last 30 or 40 years have evolved the doctrine to be sensitive to the economic needs of the country to protect vigorously, competition, while at the same time understanding that true com-

petition requires that American businesses be given the ability to compete freely and openly in the world economy. And what concerns me, quite frankly, sir, is that this bill will set a precedent for changes in the antitrust laws that will really, in some respects, sap their vitality. I think if you study this as we have, the flexibility of the courts and the ability to adjust really will be, to some extent, undermined by this effort and that is a note of caution.

Now I understand, on the other side, there is a precedent out there—the *Digidyne* case in the ninth circuit—that seems to have caused concern. Since *Digidyne,* every other court that's looked at this throughout the country has taken a contrary view of it, and if it weren't for the fact that *Digidyne* was extant, I think then the argument about not codifying this provision would be particularly strong.

With respect to that, I would just note that even in the ninth circuit in a subsequent decision, the *Mozart* case, which is at 833 F.2d 1342, the ninth circuit itself—this is a 1987 decision—does really put a cloud over its earlier *Digidyne* case first of all holding, in that case, that trade secrets do not lead to presumption of market power, a view that we in the committee completely agree on. And second of all flatly stating, and I quote, "To the extent that the panel's opinion in *Digidyne* indicates that the presumption of market power is warranted merely by the existence of copyright protection, the *Digidyne* view has been rejected by several courts and commentators." And then there's a lengthy citation and it even goes on to say that two of the justices in the majority opinion in the *Jefferson Parish* case, who in dicta there suggested the *Digidyne* view, those two sought a certiorari petition in the *Digidyne* case itself because of their concerns about market power.

So I think the residual concern about the evolution of the law is one that need not and should not lead this committee to start down the path of what I consider to be case-by-case amendments to the antitrust laws.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Klein follows:]

PREPARED STATEMENT OF JOEL I. KLEIN, DEPUTY ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, U.S. DEPARTMENT OF JUSTICE

Mr. Chairman and Members of the Committee, I am very pleased to be here today to present the views of the Department of Justice on H.R. 2674, the Intellectual Property Antitrust Protection Act of 1995. As it did in connection with nearly identical legislation that was before this Committee in 1989, the Department endorses the substance of the bill. At the same time, however, we are reluctant to endorse generally the practice of amending the antitrust laws, whose broad mandate for an economy fueled by competition has served our nation so well for over a century. In our view, modification of the application of the antitrust laws should occur only when there is a substantial and compelling justification in favor of the change. As my testimony will address, we question whether that justification has been met in this instance.

BACKGROUND

As Commissioner Lehman points out in his testimony, the antitrust laws and the laws protecting intellectual property share the common purpose of promoting innovation and enhancing consumer welfare. The antitrust laws serve these ends by prohibiting certain actions that may harm competition with respect to existing or new ways of serving consumers. The intellectual property laws provide incentives for in-

novation by protecting in certain circumstances the innovation from imitation or copying, leading to more innovation which enhances consumer welfare.[1]

In our free-market economy, the amount that a firm invests in innovation may depend upon the perceived rewards from its investment—typically, the higher the perceived rewards, the greater the investment. Conversely, if creators of new technologies expect diminished rewards due to uncompensated use of their creations by others, their incentives to innovate will be lessened. Consequently, fewer technological advances by American firms may occur, American competitiveness may suffer, and consumers may face fewer choices and higher prices. By restricting unauthorized use of inventions and copying of original works of authorship, our intellectual property system helps guarantee that inventors and authors receive a return on their efforts, promoting innovation, and giving consumers and firms access to inventions and creative works that otherwise may never have been produced.

At the same time, just as with other forms of property, some uses of intellectual property can result in less, not more competition that drives innovation; fewer, not more, products; and higher, not lower, prices. While intellectual property generally has not been harshly treated under the antitrust laws, it is beyond question that, just like the owner of other forms of property, the holder of an intellectual property right can violate the antitrust laws through particular conduct related to the intellectual property right.[2]

Typically, one of the most important factors in determining whether a civil antitrust law violation has occurred is whether the firm engaging in particular conduct has market power in a relevant antitrust market. Market power is the ability profitably to maintain prices above, or output below, competitive levels for a significant period of time. A question that can arise with respect to a particular product that is the subject of an intellectual property right is whether that right, whether it be a patent, copyright, or trade secret, confers market power upon its owner.

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Section 2 of the bill would provide that, in any antitrust action against an owner, licensor, licensee, or other holder of a patent or copyright, concerning the intellectual property right owner's "marketing or distribution of a product or service protected by such a right,"[3] no presumption of market definition, establishment of market power (including economic power and product uniqueness or distinctiveness, attributes which at times have been held to be signs of market power) or of monopoly power may be drawn from the mere existence of the patent or copyright. The rule that this bill sets forth is an accurate statement of how intellectual property rights should be analyzed under the antitrust laws. While intellectual property rights, just like other forms of property rights, may well be relevant to the existence of market power or monopoly power, or to market definition, they must be viewed in the context of surrounding market facts, especially the presence of alternatives to the technology, expression, or goods protected by the intellectual property rights.

So strong is the consensus on this point, though, that it raises the question as to whether this bill is really necessary. I will return to this point and a related concern in a few moments. First, though, I would like to focus on the substance of the bill and the Department's strong agreement with it.

As you suggested in your statement of last November 20 introducing this legislation, Mr. Chairman, the question of intellectual property rights and market power frequently comes up in the context of a tying case—where a seller conditions the

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[1] "The patent system, which is rooted in the United States Constitution (Art. I, §8, cl. 8), serves a very positive function in our system of competition, i.e., 'the encouragement of investment based on risk.' By so doing, it 'encourages innovation and its fruits: new jobs and new industries, new consumer goods and trade benefits.' In that sense, therefore, and because the underlying goal of the antitrust laws is to promote competition, the patent and antitrust laws are complementary." *Loctite Corp.* v. *Ultraseal Corp.*, 781 F.2d 861 (Fed. Cir. 1985) (citations omitted).

[2] *See, e.g., United States* v. *Pilkington plc & Pilkington Holdings Inc.*, No 94–345 (D. Ariz. 1994) (exclusive territorial licenses based on expired patents used as mechanism for horizontal territorial allocation); *United States* v. *New Wrinkle, Inc.*, 342 U.S. 371 (1952) (patent pool used as price-fixing mechanism).

[3] Although this language would seem to limit the bill's prohibition to actions involving transactions in the protected downstream products or services, the legislative history of one of H.R. 2674's predecessors, the Intellectual Property Antitrust Protection Act of 1989, indicates that it is also meant to apply to licensing transactions as well, as where a patent owner licenses another person to make products protected by the patent. S. Rep. No. 8, 101st Cong., 1st Sess. 13 (1989)("The reference [in S.270,] to antitrust actions challenging conduct 'in connection with the marketing or distribution of a product or service protected by such a right' is intended to apply to any antitrust action challenging the legality of the defendant's conduct involving the marketing or distribution of an intellectual property right.")

sale or license of one thing (the tying product or service) on the sale or license of another (the tied product or service). While tying is categorized as a per se Sherman Act offense, it requires a showing of market power in the market for the tying good or service—unlike other per se offenses such as price fixing and horizontal territorial allocations.

As you pointed out, Mr. Chairman, some of the more venerable tying cases held that "[t]he requisite economic power is presumed when the tying product is patented or copyrighted."[4] Two classic examples, *United States* v. *Paramount Pictures,* Inc.,[5] and *United States* v. *Loew's,*[6] involve the long condemned practice of "block booking," the tying of one or more undesirable movies to hit films. In *Paramount,* the tying was directed at movie theaters; by the time of *Loew's,* television had become an attractive target for tying bad movies to good.

Maybe there was in fact some degree of market power at work in these cases. For example, as the Court mused in a footnote in *Loew's,* the film distributors' ability to foist undesirable films on unwilling television stations may have stemmed from "the fact that to television as well as motion picture viewers there is but one 'Gone With the Wind.'"[7] Had the Court relied on that point, *Loew's* would be a far more compelling—but much narrower—case, in which the market power finding was premised on the actual attributes of a tying product. Instead, though, the Court presumed market power from the very existence of the copyright, which vested no more power in in "Gone With the Wind" than it did in "Getting Gertie's Garter," one of the tied movies. But if that were what mattered, the movie studios would not have needed to tie in the first place—market power would exist for every copyrighted movie. This is one of the clearest examples of why it is wrong to infer market power from the mere existence of an intellectual property right.

The Supreme Court cited this rule most recently in dictum in *Jefferson Parish Hospital District No. 2* v. *Hyde,*[8] a tying case that did not even involve intellectual property. In the very same case, though, Justice O'Connor (in an opinion for four Justices) sounded the rule's death knell in her concurrence, noting that "a patent holder has no market power in any relevant sense if there are close substitutes for the patented product."[9] Since then, with the exception of the Ninth Circuit's decision a few months later in *Digidyne Corp.* v. *Data General Corp.,*[10] *the rule has faded into well-deserved obscurity.*

In *Digidyne,* the Court of Appeals held that Data General's copyright in its operating system created a presumption of economic power sufficient to make it liable for tying sales of its central processing units to sales of the operating system—thus keeping the operating system out of the hands of original equipment manufacturers that wished to use it in conjunction with another maker's CPU. There appeared to be evidence that, once an original equipment manufacturer had committed to making computer systems using Data General's operating system and CPU, and developed customized applications software at great cost, Data General had it over a barrel. And certainly Data General's copyright protection played a role in this. But, at least barring the kind of market imperfections that the Supreme Court has held could give rise to separate "after markets,"[11] the conclusion that Data General's copyright gave it market power over the OEMs ignored the fact that Data General may well have had to compete hard for the OEMs' allegiance at the very outset.

The strength of Justice O'Connor's concurring opinion in *Jefferson Parish* and the weakness of the *Digidyne* analysis make it unsurprising that this Ninth Circuit opinion has been the lone decision since *Jefferson Parish* upholding the rule of *Loew's.* Rather, one Circuit Court of Appeals after another has rejected the idea that the mere existence of an intellectual property right alone could give rise to a market-power presumption.[12] This reflects, I think, the wisdom of allowing the Sherman

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[4] *United States* v. *Loew's, Inc.,* 371 U.S. 44, 45 (1962), citing *International Salt Co.* v. *United States,* 332 U.S. 392 (1947); *United States* v. *Paramount Pictures, Inc.,* 334 U.S. 131 (1948).

[5] 334 U.S.131 (1948).

[6] 371 U.S. 44 (1962).

[7] *Loew's,* 371 U.S. at 48 n.6.

[8] 466 U.S. 2, 16 (1984) (reversing Fifth Circuit's holding that exclusive agreement between hospital and anesthesiologists' group amounted to tying violation in absence of evidence of hospital's market power or of "actual adverse effect on competition" warranting condemnation under Rule of Reason).

[9] *Jefferson Parish,* 466 U.S. at 37 n.7 (O'Connor, J., concurring in the judgment).

[10] 734 F.2d 1336 (9th Cir. 1984).

[11] *Eastman Kodak Co.* v. *Image Technology Services, Inc.,* 504 U.S. 451 (1992).

[12] E.g., *American Hoist & Derrick Co.* v. *Sowa & Sons, Inc.,* 725 F.2d 1350, 1367 (Fed. Cir.) ("patent rights are not legal monopolies in the antitrust sense of that word"), cert. denied, 469 U.S. 821 (1984); *A.I. Root Co.* v. *Computer/Dynamics, Inc.,* 806 F.2d 673, 676 (6th Cir. 1986);

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Act to evolve through case law, in which repeated exposure to real-world market situations and developments in economic thinking give judges and advocates the chance to apply the law's general mandates with flexibility and circumspection.

In addition to case law, the vast majority of antitrust scholars and commentators have for many years concluded that the mere existence of a patent, copyright, or trade secret does not necessarily confer market power upon its owner. That is because of the inescapable logic that even different products may, and in many circumstances do, compete with one another to a sufficient extent that even having an exclusive right with respect to an individual product does not allow the seller of that product to profitably maintain prices above, or output below, competitive levels for a significant period of time.

To clarify how the federal antitrust agencies enforce the law with respect to this question, the DOJ/FTC Intellectual Property Guidelines of 1995 state that "[t]he Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." Our reasoning was that "[a]lthough the intellectual property right confers the power to exclude with respect to the *specific* product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power."

The virtual unanimity of scholars on this point, the analysis contained in the DOJ/FTC Intellectual Property Guidelines, and the inexorable development and maturation of court decisions in this area of antitrust law, which all resolve the issue in accordance with the substance of this legislation, bring into question whether legislative action is really necessary at this point. One of the great virtues of the antitrust laws is that they are general in nature. Adopting new antitrust legislation should be done only when the need for such legislation is great.

It is also worth noting, I think, that the development of antitrust thinking leading to the current approach by courts, scholars and the federal antitrust agencies, could not have happened had, for instance, the antitrust wisdom of the 1960s and 1970s on intellectual property licensing—which we now refer to without nostalgia as the "nine no-nos"—been codified.

This brings me to one other point I want to emphasize in light of the prominence of the Antitrust Guidelines for the Licensing of Intellectual Property and the other federal agency antitrust guidelines that have recently issued.[13] Mr. Chairman, you generously mentioned the IP Guidelines in your floor remarks introducing this legislation. My fear is that, if the current legislation sets a precedent for enacting parts of our guidelines into law, partisans of all sorts of theories may comb the various Guidelines for concepts they favor, and, discarding other portions that give the Guidelines balance, urge the passage of what they like to become part of the law. This might lead the Division and the FTC to be reluctant to issue Guidelines, and I think we would all be much worse off if that occurred.

## CONCLUSION

In sum, the Department supports the substance of H.R. 2674. It embodies an antitrust principle so firmly established that it poses no serious prospect of proving to have been improvident. The question for this Committee and for this Congress is whether given the current approaches courts are taking, there truly is a substantial and compelling justification for amending the nation's antitrust laws.

Mr. Chairman, this concludes my prepared statement. I would be very happy to address any questions you or the other members of the Committee may have.

Mr. HYDE. Thank you, Mr. Klein. I'll just ask one question on the first round and then we'll get back, but, Mr. Klein, the guidelines are just that—they're guidelines and they're fine as far as they go. But isn't the problem that they don't bind private parties, and private treble damage actions can still be brought against patent hold-

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*Will* v. *Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.4 (7th Cir. 1985), cert. denied, 475 U.S. 1129 (1986); *Nobel Scientific Indus.* v. *Beckman Instruments*, 670 F.Supp. 1313, 1329 (quoting *Jefferson Parish*, 466 U.S. at 37 n.7 [O'Connor, J., concurring]), aff'd, 831 F.2d 537 (4th Cir. 1987); see also *SCM Corp.* v. *Xerox Corp.*, 645 F.2d 1195, 1203 (2d Cir. 1981)("When the patented product, as is often the case, represents merely one of many products that effectively compete in a given product market, few antitrust problems arise"), cert. denied, 455 U.S. 1016 (1982).

[13] See, e.g., DOJ/FTC Antitrust Enforcement Guidelines for International Operations (1995); DOJ/FTC Statements of Enforcement Policy and Analytical Principles Relating to Health Care and Antitrust (1994).

ers and copyright holders? Guidelines are not permanent. They can be changed by subsequent administrations or even by this administration. If you want real certainty, it ought to be in the law, not in guidelines, which have about them an impermanence, a transitoriness. What is your comment?

Mr. KLEIN. Well, I agree that guidelines are guidelines. What it seems to me is—there are two responses. I think the law is at the point where, especially with our guidelines, the likelihood of seeing a recurrence of a *Digidyne*-type holdings seems to me to be very small. And I would represent to the committee, at least so long as this administration is there, were we to see such a case we would be actively involved in an amicus curiae.

Mr. HYDE. But you can't speak for a subsequent administration, can you?

Mr. KLEIN. No, I cannot, but I think that's what takes me to the second principle, Mr. Chairman. I would think you—perhaps more than most, having been through this for so long—understand there are lots of wrong-headed decisions by Federal courts; fortunately, they are the small minority, but, nevertheless, that happens and sometimes it takes more than 1 day and one train to get it right. And what I think here is we had an error in *Digidyne* and I think time and history have cured the error and it won't be repeated.

I don't think this committee or this Congress wants to sit as a review body for erroneous decisions in the antitrust laws, and if we do, one of the things that I think you'll do is chill the kind of role that we at the Justice Department play with respect to guidelines. If we think that every time we put something in a guideline it's going to then become ossified through a codification, I think that will lead us to be more, not less, cautious. That's the concern. I don't want to in any way denigrate the concerns that motivate the chairman or the cosponsors of this bill—they're important. I just want you to understand that I think are there counter valid concerns.

Mr. HYDE. You will concede ossification leads to certainty, won't you?

Mr. KLEIN. It does, but it also leads to people becoming crusty and inflexible and I think we need to have both in the law—a little bit of certainty and a little bit of flexibility.

Mr. HYDE. Thank God, Congress is an ongoing process. [Laughter.]

The gentlelady from Colorado.

Mrs. SCHROEDER. Well, thank you, Mr. Chairman.

I tend to agree with your comments, Mr. Klein, but I take it that you really have pulled the flag down, is that right? Have you conceded on this bill?

Mr. KLEIN. Well, I certainly would concede that the legal standard embodied in the bill is correct, and in that respect we have no dispute whatsoever with that. I'm also prepared to concede that there are at least some concerns that have been articulated that would lead one to think there was a need for such a statute; however, on balance, it is our considered view that the problem has evaporated and that, therefore, the costs of enacting this kind of interstitial legislation set a bad precedent. So, in that respect, perhaps the flag is somewhere in-between.

Mrs. SCHROEDER. Mr. Lehman, do you have anything that you would like to say to that? Are you worried about ossification?

Mr. LEHMAN. Well, Mrs. Schroeder, I have a great deal of respect for the legislative process and for this committee, and I'm sure that you will take our comments into consideration as you consider this legislation.

Mrs. SCHROEDER. I find this all so very interesting, Mr. Chairman. Isn't this amazing? These are little lambs. Anyway, thank you very much, Mr. Chairman.

Mr. HYDE. Thank you, Mrs. Schroeder.

The gentleman from California, the chairman of the Intellectual Property Subcommittee.

Mr. MOORHEAD. Mr. Klein, as far as I know, *Data General* is still governing law in the ninth circuit which covers approximately 40 million people, nine States, and much of the computer industry. Moreover, based on the *Jefferson Parish* case, the presumption could be read as governing law for the whole country. Isn't that a pretty good justification for enacting this bill?

Mr. KLEIN. I think it's a justification; I think ultimately it's not sufficient and let me tell you two reasons why. I think in terms of *Jefferson Parish* itself there have been numerous other courts, including courts of appeals in the various circuits, that have not found *Jefferson Parish* to be controlling. So, I think it is fair to say that *Jefferson Parish* cannot be seen as the law of the land on this issue and, indeed, as I mentioned, two of the people in the majority in *Jefferson Parish* were so concerned about the misapprehension that they voted to grant certiorari in the *Digidyne-Data General* case that you referenced.

As for the issue in California, Mr. Moorhead, I understand and respect your concerns and I in no way want to make light of those concerns. It is my considered judgment and the Department of Justice's considered judgment that, given the *Mozart* case I referred to, the uniform body of law review articles and case law subsequent to *Digidyne,* and now the Department of Justice and Federal Trade Commission guidelines, that *Digidyne* is a relic, and, therefore, I am led to conclude that the costs of this kind of relatively small change in the antitrust law outweigh the benefits. But I hope you understand that I know the concerns that animate you and the cosponsors of this bill, and I in no way mean to either disrespect or belittle those.

Mr. MOORHEAD. Would you go so far then as to say that *Data General* is not the ruling law in the ninth circuit?

Mr. KLEIN. Well, I would not go so far as to say it's not the ruling law, in the sense that the decision is out there and has not been expressly overruled. In that respect, I think it is the ruling law; however, I think for lawyers and members of this committee who study the law, you know when an extant precedent is so weak as to be just one step away from burial. And my view of the *Digidyne* case is that's where it remains and that the ninth circuit, when given the opportunity, would clearly overrule it. It has not done so yet, sir.

Mr. MOORHEAD. Trying to second-guess what a court will do on appeal is pretty hard to do. I know a lot of those ninth circuit justices and I don't think they can be predicted that easily.

Mr. KLEIN. It's a hard game; a lot of lawyers sort of make their living doing it.

Mr. MOORHEAD. Mr. Lehman, could you explain how U.S. firms, in particular, would benefit from the enactment of this legislation? Wouldn't it also benefit foreign firms that hold U.S. patents and copyrights? And would it be a net-plus for the United States?

Mr. LEHMAN. Well, Mr. Moorhead, as I indicated, we in the Department of Commerce and at the PTO and the administration very strongly hold the view that intellectual property rights are just like every other property. In fact, this administration has spent a great deal of effort to try to keep intellectual property laws up-to-date and to try to make them enforceable around the world because they protect the most valuable property, increasingly, that we have in America today.

And, so, it's particularly important that in all aspects of the administration of the law, not just in defining what intellectual property rights are, but in all the ancillary aspects of the law that deal with intellectual property, that we not kill the goose that lays the golden egg, so to speak; that is, that we not unfairly and unduly restrict the most important asset that we have, both here in the United States and internationally. We probably have the strongest intellectual property laws in the world—I mean the strongest both in terms of intellectual property laws and antitrust laws—right here in the United States, and so we don't see antitrust imposed in foreign countries as a problem in our exporting our intellectual property. But, it's also very important here that we keep our industries competitive, and so in that sense we should clearly enforce the antitrust laws, but just as we do with oil or gas or minerals or any other kind of property. And that's what this administration is doing and what we're committed to, and I think you've heard what Mr. Klein has said. I think the issue for the committee is to balance the caution that's been expressed about amending the law against whether or not there is a need on the part of industry for clarification.

Mr. MOORHEAD. I see I've got the red light.

Mr. HYDE. You do, indeed, Mr. Moorhead, but we'll be back to you.

The gentlelady from California, Ms. Lofgren.

Ms. LOFGREN. Thank you, Mr. Chairman. I am—I think with every other member of the committee—anxious only to do what is best for our country and to foster innovation and growth in intellectual property-based industries, particularly high-tech industries, and in talking to most of the people in high-tech industries, they seem to feel that this bill would help foster innovation and growth because of the certainty it would provide. I know that there are some, including a much-valued member of Silicon Valley, who will testify to the position and I'm eager to hear from them today, as well.

I'm just sorting through what I'm hearing today and in reading the cases I'm not sure I understand your concern about calcification or flying the flag at half-mast in terms of the certainty issue because that could take some time to sort through, but we've got a product life cycle of 7 to 13 months in some of these high-tech in-

dustries so delay is a serious issue if this is where the law should be. Could either one of you address that?

Mr. KLEIN. I would say the following, Ms. Lofgren: I think that the concern we have is—and it's a very abstract concern and I realize that before the committee. It's so rare to come before you and say that this proposition makes absolute sense, and Commissioner Lehman and myself, and Anne Bingaman, on behalf of whom I speak today, are as enthusiastic in endorsing the proposition as we can be. There is no daylight with respect to that matter. So then why be concerned?

The question is, there is a process in antitrust law that's evolved over 100 years of litigation. There are lots of times when a particular decision will be seen as wrong and the businesses that are affected might well want it changed. I think history teaches us that the common law process through the courts is a more flexible, more sensible way to go about that. And I think we've got 100 years on our side; that's what I'm cautioning here.

In saying that, I make two points on the other side. Absolute certainty is always good if you're trying to plan your events; there is not absolute certainty here, and in that respect I understand the chairman's and the cosponsors' concerns. I think in the real world that concern about the ongoing vitality of *Digidyne* is very, very small and should not stand as a practical impediment to the practices of business. And, so, when I balance those two it leads me to say that the precedential value of codification of antitrust law that disagrees with particular court cases is not a good idea and outweighs the need to clarify this particular one.

Ms. LOFGREN. I don't want to put words in your mouth, but are you more concerned about legislation affecting the precedents of the evolution of antitrust law than you are about the codification of the specific rule of law?

Mr. KLEIN. I'm delighted to have you put those words in my mouth—that's exactly what I believe.

Mr. LEHMAN. Ms. Lofgren, I'd like to just make the point that, of course, nothing in the existing law or nothing that we're talking about stops people from getting a patent in a timely manner, and we're very sensitive in the Patent and Trademark Office about the necessity of getting people in and out of the Patent and Trademark Office as quickly as possible with a high-quality patent that they can take to the marketplace in this increasingly competitive and short life-cycle market that you referred to. This is really an ancillary concern about the application of antitrust which would apply to very few patent holders. I think we just need to keep that in perspective.

Ms. LOFGREN. Thank you, and I yield back the balance of my time.

Mr. HYDE. I thank you.

The gentleman from Pennsylvania, Mr. Gekas.

Mr. GEKAS. Mr. Chairman, if I yield my time and waive my time, would that be an admission that I have no intellectual property?

Mr. HYDE. No, but that would ingratiate you with the Chair. [Laughter.]

Mr. GEKAS. Then it would be intellectually sound. [Laughter.]

I yield.

Mr. HYDE. Thank you.

The distinguished gentleman from North Carolina, Mr. Coble.

Mr. COBLE. By consuming time, Mr. Chairman, I don't want to imply that I do have intellectual property, but I want to at least insert an oar into the water.

Gentlemen, it's good to have you all with us, as the chairman said.

Commissioner, I didn't follow—that's not your fault; that's my fault—I didn't follow the dialog between you and the gentleman from California when he asked you about the benefit that would inure to U.S. firms as opposed to foreign firms. Now I assume, conceivably, that benefit would inure to U.S. firms and foreign firms as a result of this legislation, if enacted. Is that a valid conclusion?

Mr. LEHMAN. That's correct, Mr. Coble. Foreign firms would have certainty in our marketplace, just as would U.S. firms.

Mr. COBLE. How about—I'm honing in finely now, Bruce—or Mr. Lehman. As to U.S. firms, do you think it would be a net-plus or a net-minus, and that may be difficult to gauge?

Mr. LEHMAN. Well, obviously I'm in an awkward position because Mr. Klein is very concerned, and rightly so, with the evolution of the antitrust law—that's his baby—and mine is intellectual property law. Obviously, if you're in business the absolutely certainty that this legislation provides, that there will not be a presumption of market power if you hold intellectual property, is an advantage. Businessmen and women like certainty in the marketplace when they make decisions.

Mr. COBLE. Mr. Klein, do you want to be heard on that question?

Mr. KLEIN. I don't think I can improve on what Mr. Lehman said.

Mr. COBLE. OK. I'll put this question to each of you, Mr. Lehman and/or Mr. Klein. How do other countries resolve these sorts of problems?

Mr. KLEIN. Actually, I appreciate that question because, indeed, in other countries I think what they do is they codify and use statutory amendments to codify the antitrust laws, and I think it's an important point to understand, which is to say there are many countries that have antitrust laws that are many, many times the length and breadth of ours, but there's no country in the world that has had as vigorous or successful enforcement of the antitrust laws.

And the point of caution I make—and it's simply that, a point of caution—is that we have something that is very important here that has served us well. And even though I have no objection to the principle here, I am concerned about the precedent and I think your concern puts it well. In other countries they are quick to enlist statutory change, and, therefore, I think their courts and their bar do not play the same kind of role in antitrust enforcement that we have in America. So I thank you for the opportunity, Mr. Coble.

Mr. COBLE. Do you want to add to that, Mr. Lehman?

Mr. LEHMAN. No, other than to say that I think we have by far the best intellectual property system and the best antitrust system in the world, and by far the most flexible, as Mr. Klein has pointed out, both in the administration of the system and, also, I think, even in the legislative front as well.

Mr. COBLE. Mr. Chairman, I hope you will note that I have not consumed my full 5 minutes and yield back.

Mr. HYDE. I thank the gentleman profoundly.

The distinguished gentleman from Florida, Mr. Canady.

Mr. CANADY. I have no questions, Mr. Chairman.

Mr. HYDE. Thank you.

The distinguished gentleman from North Carolina, Mr. Heineman.

Mr. HEINEMAN. Thank you, Mr. Chairman. In the interest of time and pleasing my chairman, I will join my colleagues, one from Pennsylvania and one from Florida, and remain ossified. [Laughter.]

Mr. HYDE. My cup runneth over.

Mr. CANADY. Speak for yourself.

Mr. HYDE. The gentleman from Ohio, Mr. Chabot.

Mr. CHABOT I can't top that; I'll yield my time as well.

Mr. HYDE. I thank the gentleman.

The gentleman from Georgia, Mr. Barr.

Mr. BARR. Mr. Chairman, I've reviewed the written materials and find them fairly comprehensive, and I appreciate the opportunity, but I'll rest with the information that we've received at this time.

Mr. HYDE. I thank the gentleman.

I just—in thanking this panel and moving on to the next one—just want to comment to Mr. Klein. I'm trying to determine what the negatives are in statutorily confirming what you have agreed is a sound principle of law. Presumptions are really fictional—imposed or bestowed because the law thinks that advances us towards justice—but in negligence cases you don't presume negligence; the plaintiff must prove. And in antitrust cases involving patents and copyrights—it's not an unseemly burden to ask a plaintiff to prove what the law, for some archaic reason, presumed—that if you invented something there was automatic market power.

As long as the ninth circuit has one law—which is a pretty big circuit, about 40 million people there—and the rest of the country has another law, I don't see the unwisdom of us providing certainty which you have again agreed, in the abstract, is a good thing in this area. So, what's such a burden? What is the unholy precedent that would be established by taking this concededly benign, good, helpful principle and ossifying it into statutory form?

Mr. KLEIN. Well, I don't think there's anything unholy about the process, Mr. Chairman. I think that the concern—I agree with you—I think this is a question to some degree of means and ends. The "ends" that the committee is concerned about are exactly the right ends. There should be no presumption here; there's no question about it. But now we come to talk about "means," and here is my concern. I'm reminded of a recently-read opinion of Justice Scalia's in which he says, in this kind of discussion, he says, "Oftentimes the wolf shows up in sheep's clothes," and in the particular case he was involved in he says, "This wolf comes as a wolf."

In this case I think we are talking about a wolf in sheep's clothes in the following sense: Just as you said to me that this Department may not be there and the next administration may have a different

view, it's entirely possible from one Congress to another that we may have a different Congress. When we codify piecemeal changes to the antitrust laws like this and we get in the habit of it whenever a court decision is seemingly wrong, we make it easier to do that and then much harder to really amend the law in the other direction. And sometimes—this is not true at *Digidyne*—but sometimes a court decision seems to be wrong, the business community would object to it, and the Congress might well then decide to amend the statute.

Mr. HYDE. You just prefer guidelines to law, right?

Mr. KLEIN. I prefer, actually, the common law evolution of the antitrust laws. It's not the guidelines, I——

Mr. HYDE. As expressed in guidelines which are infinitely malleable, as distinguished from the law which is less malleable.

Mr. KLEIN. What I'm concerned about, Mr. Chairman, are the court decisions which are—to be sure common law court decisions are not written in stone—but they are permanent in the sense that they govern the country; they're not simply guidelines. And that is the process that uniquely in the antitrust laws has worked with great success, and that's what I am raising concern about.

Mr. HYDE. Well, you and I could have this discussion and it is fascinating and stimulating, and Mr. Lehman is not about to disagree with you and we know that. But, thank you very much. Thank you, Mr. Lehman.

Mr. KLEIN. Thank you, Mr. Chairman.

Mr. LEHMAN. Thank you.

Mr. HYDE. Our second panel of witnesses consists of five distinguished members of the private sector who will share their views with us regarding this legislation, and, of course, we appreciate your being here today.

First, we have Mr. Jacob Frank, the vice president and general counsel of Data General Corp. After tours of duty with the U.S. Air Force and the Patent Office, Mr. Frank joined Data General in 1973 and he has remained there ever since. He knows the problems presented by the market power presumption first-hand. He was involved for many years in the Data General litigation that in part led to the introduction of this legislation.

Second, we have Mr. Greg Handschuh, the vice president and general counsel of Amdahl Corp. After service with the Federal Trade Commission, Mr. Handschuh joined Amdahl in 1979 and became its general counsel in 1990.

Third, we have Mr. John Kirk, a partner in the Houston office of the law firm, Jenkens & Gilchrest. Mr. Kirk has broad experience in the area of intellectual property law and appears today on behalf of the American Bar Association, and he is the chairman-elect of its Intellectual Property Section.

Fourth, we have Mr. Larry Evans, a private intellectual property licensing consultant from the great State of Illinois. For many years Mr. Evans headed the patent department of British Petroleum of America and its predecessor, Standard Oil of Ohio. In 1993 he served as president of the Licensing Executives Society and appears today before us on behalf of that organization.

Finally, we have Mr. Tad Lipsky, senior competition counsel for the Coca-Cola Co. Mr. Lipsky served two tours at the Antitrust Di-

vision before becoming a partner with the Atlanta law firm of King & Spaulding in 1984, and in 1992 he moved to the Coca-Cola Co. He appears here today on behalf of Intellectual Property Owners.

We're very pleased to have you all with us today. Your written statements will be placed in the record in their entirety, and if you could give us the highlights in your oral presentation, consuming about 5 minutes, then we could get to everybody and get to questions. Excuse me, I understand Mr. Frank has a demonstration, so we'll give Mr. Frank a little more leeway so that he can present his demonstration, and first we'll hear from you, Mr. Frank.

## STATEMENT OF JACOB FRANK, ESQ., VICE PRESIDENT AND GENERAL COUNSEL, DATA GENERAL CORP.

Mr. FRANK. Mr. Chairman, thank you for inviting me to testify before you today.

I am vice president and general counsel of Data General Corp. with corporate headquarters in Westboro, MA. Our computer products, systems, and services are sold and marketed in numerous branch and sales offices throughout the United States and many foreign countries. Data General adds hundreds of millions to our gross national product by net exports of our products and services. The company was founded on and continues to survive on the development of innovative, high-tech solutions employing new technologies, such as the data storage product that I am about to demonstrate to you now.

Your attention is invited to the demonstration of a data general storage system being operated by William Solari, a product support engineer for Data General. The purpose of the demonstration is to show you one of the many possible examples of a hardware and software integrated system which could be affected by the current law. In 1987, Hewlett-Packard demonstrated a medical diagnostic system as another example of a hardware and software integration in a similar hearing 9 years ago. The system you see is a Data General Clarion storage system. For demonstration purposes, the system is connected to an IBM RS1000 computer.

In the fall of 1992, Data General first announced a series of CLARiiON storage systems based on new technology for sale in the open systems marketplace. By "open," I mean storage systems that will run with computers of others: IBM, DEC, Hewlett-Packard, NCR, Silicon Graphics, PC computers, and so forth. In the 3½-year period to date, CLARiiON yearly sales have advanced from zero dollars to approaching $400 million.

The particular system shown here has 50 gigabytes of storage memory, but can accommodate 80 gigabytes of storage memory. Assuming one gigabyte of storage can store approximately 1 million pages of data, this system can store from about 50 to 80 million pages of data. Briefly, this CLARiiON system comprises an array of 20 distinct disk drives, one associated with each movable tray that you'll see later, and where each disk has a maximum of four gigabytes of storage. The disk drives are electrically administered in four groups, each group consisting of 5 disk drives. Data from each group of five disk drives is employed to display on the computer screen a separate moving colorful object. The lower left-hand corner of the screen, rather than displaying a fourth moving object

from the fourth group of disks, depicts instead a diagnostic view of the various subassembly units of the storage system.

Incidentally, we purchased these disk drives from a number of manufacturers. This particular storage system contains a mixture of IBM and Seagate disk drives. The disk drive prices alone run in the neighborhood of about $1,000, depending upon the number of gigabytes of storage. The disk drives are seated in Data General's design trays, along with Data General logic boards. The other system subassembly units shown on the screen include three separate power supply units, two of which are continuously operating, and two processor boards. A processor board is, in reality, a small computer which interfaces with the power supply, the disk drives, and the host computer, which in this case is the IBM computer.

One of the two processor boards could drive all 20 disk drives or one of the processor boards could be used to drive half of the disk drives—that's 10—and the other one of the processor boards could be used to drive the other half of the disk drives—or the other 10. That's the totality of the hardware, except for the metal housing and a set of fans for cooling the system, as a significant amount of heat is generated by the fast-rotating disk drives.

The innovative software is the all-important intelligence that operates the hardware. The software is already loaded into the system to run the processor; however, if we needed to first load the software into the storage system, we would insert the floppy disk that bill has in his hand onto the computer. That software and that floppy disk represent at least 100 person-years of research and development effort and is key to the success of our advanced storage solution, and in large part is what gives Data General an edge over its competitors.

Some of the major features of our CLARiiON system are the ability for the system not only to keep on running when one or more subsystem units fail, but the ability to repair the system at the same time without stopping the storage system's use by the computer and without losing any data. Minimizing downtime is quite important in many industries such as the banking industry, the credit industry, and so forth. Also, not losing data means not losing one word in the 50 to 80 million pages of data stored on the disk. Let's assume one disk of each of the four groups fails, for one reason or another, and has to be replaced.

Bill, would you please pull out four of the units, one from each of the four groupings.

[Demonstration.]

Mr. FRANK. Incidentally, when a unit fails, an amber light is displayed on the unit itself and on the computer screen at the lower left-hand corner. Also, let's assume that one of the two power supplies that is operating the system goes down.

Bill, please pull out one of those power supplies.

Finally, let's assume that one of the processing units that are supporting at least two groups of disks goes down.

Bill, please pull out a processor board.

As you can see, there was hardly a hiccup in the operation of this system. The software instantaneously brings on the new power supply into play and brings on the necessary processor to operate with a group of disks associated with the failed processor while

maintaining full data integrity. Now let's assume we're replacing all of the defective units with good spare units.

Bill, do you want to put them all back, please.

See, it's so user-friendly that even a lawyer could perform a repair function. In some instances, you'll see the display slow down for an instant, but I want to make it clear that there was absolutely no loss of data. And one reason that no data is lost when one disk in a group of five is taken out is because of the sophisticated software. When the new replacement disk is put in, the replacement disk, which is initially blank, is automatically fed with data from the other four disks within the group to build the information backup that was on the removed disk. This rebuilding of data only has a nominal effect on the normal operation of the storage system with the IBM computer, such that the user never realizes anything has ever happened. So, here we have an integrated system that is a combination of hardware and software, where the software, although contained on a disk worth $1.40, is the heart of the CLARiiON system.

Well, I'm through with my demonstration, but may I continue with my comments, please?

As you have seen, the storage system has computer intelligence to operate it and essentially is a combination of hardware and software—software that is protected from illegal use by a copyright. The tying of the hardware and this copyrighted software makes this system vulnerable to the threats I will be addressing today. I'm here in support of H.R. 2674. I believe that it will be vital to the sustain excellence of the U.S. computer industry. I would like to compliment Chairman Hyde for introducing this bill and for holding this hearing. I would also like to commend the other Members of the 104th Congress who recognize the harmful effects of the current situation and thus cosponsored this important legislation.

The problem which this legislation seeks to remedy, is relatively straightforward. It stems from the presumption by some courts that patented or copyrighted products automatically give the intellectual property owner market power or a monopoly. For example, because the software I just demonstrated is protected by copyright, the software, when tied to the hardware, could be presumed to give Data General market power. This is a dangerous and powerful presumption, because according to Supreme Court precedent, tying arrangements—where the hardware and software of a system are marketed and sold together—are subject to per se treatment under the antitrust laws when the defendant has market power. Therefore, based upon this precedent, this system could be found in violation of current antitrust laws. Even though a defendant company may not, in fact, possess actual market power, it will be legally presumed to do so and to have engaged in anticompetitive activities in violation of the antitrust laws and thus be subject to treble damages and injunctive relief.

How has this affected Data General? We are a high-tech company that sells integrated computer systems at highly competitive prices. As a business, it is Data General's intention to sell systems and solutions, to grow its revenues and profits, and to better recoup its investment. We succeed by developing innovative products which embody the newest technology. We secure patents and copy-

rights on the various hardware and software technologies that are incorporated into the systems so that we can protect and prosper from the innovation that our company has invested in over the years.

A major reason why CLARiiON has been a successful storage system is that Data General ensures that the system, as a whole, is built to the highest standards. Data General designs, develops, manufacturers, tests, and markets the storage system as a whole, even though it's comprised of both hardware and software. If forced by the courts to license the software as a separate product, our system integration of the hardware and software from the design stage to the marketing stage is compromised. It just takes one third-party company who uses a defective hardware product with Data General software to tarnish Data General's image. We want to market a quality integrated system that we have certified. The current laws, however, offer us no protection against companies that want to piggy-back on U.S. companies' valuable intellectual property; in fact, the current laws offer them an easy way to capitalize on it.

In the early 1980's, the manufacturer of a competing system sued Data General to get access to its operating system software for its NOVA emulator, a system that we solely, at our own expense, developed. In essence, the imitator sought, through the power of the courts, to require us to break off the desirable software technology from our integrated system and make it available to manufacturers of competing systems. Let me assure you that when imitators are allowed to break off and sell portions of our system, they take from us the rightful benefits of our investment in the research and development of that complete system.

An appellate court presumed we had market power because we secured copyright protection of the software and because it was attractive to some purchasers. We were forced to offer our operating system software separately from our computer systems, even though the software was solely and specifically designed to operate in conjunction with that system. Further, we were forced to make that software available for use with any emulator's hardware.

Because of this pernicious presumption of market power, the appellate court disregarded the economic and business justifications for our marketing strategy and market position. The court ignored the fact that Data General, at the time, was one of over a dozen competitors that developed operating system software for use with their own or other computer hardware and that Data General's products were under 15 percent of the relevant market. In fact, the district court, which held a full trial on the subject, looked at the market power issue and determined that Data General had no market power and that there was no unreasonable anticompetitive practice in this case. Judge Orrick ruled that because of the existing market competition, Data General was not in violation of the antitrust laws. Unfortunately, by presuming market power, the courts will never know whether market power actually exists, causing many companies to be subject to unwarranted penalties and injunctions.

I recall 9 years ago, when I testified before a Judiciary subcommittee in support of similar legislation, that many commenta-

tors and some of the witnesses before the Judiciary subcommittee predicted that this presumption of market power, or monopoly, because of its simplistic reasoning, would not be utilized in future case law. Unfortunately, it has. Hewlett-Packard, in fact, now appears to be facing trial on the same rule of law and in the same district court that Data General faced over a decade ago.

A further distressing trend has been the split within the circuits on this issue. The ninth circuit, home to some of our Nation's top technology companies, and the eleventh circuit, persist in prolonging this legal error. This disagreement among the circuits unquestionably encourages forum shopping so plaintiffs can find a court that will apply the presumption. A uniform law would end this forum shopping and treat similarly-situated parties equally under the law. We're obviously pleased that the Government's antitrust enforcers have concluded that the judicially-created presumption is wrong. But, unfortunately, we're still subject to suits by private plaintiffs who have the ability to rely on demonstrably false presumptions of market power without providing proof of market power. That's why we need H.R. 2674. A plaintiff should have to prove that the claimed market power does in fact exist before a defendant is subject to the per se rule.

I hope I have conveyed to you the importance of this legislation to the computer industry. As I have noted, the prognosticators were wrong about the impact of the circuit court rulings, and 10 years later the issues and concerns raised by our industry remain unchanged.

I thank you, Mr. Chairman, for introducing this important legislation and would be delighted to answer your questions at this time.

[The prepared statement of Mr. Frank follows:]

PREPARED STATEMENT OF JACOB FRANK, ESQ., VICE PRESIDENT, AND GENERAL COUNSEL, DATA GENERAL CORP.

Mr. Chairman, thank you for inviting me to testify before you today. I am Vice President and General Counsel of Data General Corporation with corporate headquarters located in Westboro, Massachusetts. Data General's computer products and systems and services are sold and marketed in numerous branch and sales offices throughout the United States and numerous foreign countries. Data General adds hundreds of millions to our country's GNP by net exports of our products and services. The Company was founded on and continues to survive on the development of innovative "high-tech" solutions employing new technologies, such as the data storage product which I demonstrated to you today.

[Demonstration.]

As you have seen, the storage system has computer intelligence to operate it and essentially it is a combination of hardware and software—software that is protected from illegal use by a copyright. The "tying" of the hardware and this copyrighted software makes this system vulnerable to the threats I will be addressing today.

We support H.R. 2674 and are hopeful that it will permit high tech companies, such as Data General, Hewlett-Packard, Digital Equipment, to operate in an environment not hampered by the confluence of the antitrust laws and intellectual property laws (essentially the patent and copyright laws). This legal confluence of these two bodies of law has "hog-tied" these "high-tech" producers by antiquated and counter-productive court decisions that continually plague the development and marketing of computer hardware and software products and services when marketed as integrated systems.

I wish to thank and commend Chairman Hyde and other members of the Committee on the Judiciary, some of whom co-sponsored this significant legislation and in so doing acknowledged the need for corrective legislation in aid of the high-tech community.

The problem, which this legislation seeks to remedy, is relatively straight-forward. It stems from the presumption by some courts that patented or copyrighted products automatically give the intellectual property owner "market power" or a "monopoly." For example, because the software I just demonstrated is protected by copyright, the software, when tied to the hardware, could be presumed to give Data General market power.

The storage system demonstrated today is not really all that different from the HP medical device that was demonstrated during the October 1987 hearings on this issue. Both have many similarities with the Data General NOVA computer and software which were the subject of Data General's Ninth Circuit antitrust case decided in 1984. Because the software in each instance is protected by the required copyright legend, the company developing this software could, under current case law in some courts, be presumed to have economic power.

This is a dangerous and powerful presumption because, according to Supreme Court precedent, "tying" arrangements—where the hardware and software of a system are marketed and sold together—are subject to per se treatment under the antitrust laws when the defendant has "market power." Therefore, based on this precedent, this system could be found in violation of current antitrust laws. Even though a defendant company may not in fact possess actual market power, it will be legally presumed to do so and to have engaged in anticompetitive activities in violation of the antitrust laws and thus be subject to treble damages and injunctive relief

As a business, it is Data General's intention to sell systems and solutions to grow its revenues and profits and to better recoup its investment. Moreover, shareholders expect companies they invest in to act prudently from a business perspective to maximize revenues and profits to the extent possible within their competitive environments. A major reason why CLARiiON has been such a successful storage system is that Data General ensures that the system, as a whole, is built to the highest standards. In licensing the software separately for use on third party hardware, such an achievement is much less likely to happen. This approach holds true for large and small companies alike.

System integration is also a prudent approach from a product liability standpoint. For this reason alone a company would want to ensure that the system it builds is to a higher quality control standard. It takes just one third party hardware company to build a defective product designed to run with such licensed software to destroy the software product's image. Moreover, the manufacturer of the defective hardware would always point a finger away from its own shortcomings and toward the licensor's software identifying it as the problem in any system malfunction.

Above and beyond the foregoing justifications, the current law penalizes U.S. multinational firms that employ innovative technology covered by patents and copyrights, as it is the law of the country in which the parent company resides that controls business strategy or what marketing policy the company employs. In particular, the current law principally impacts U.S. companies like Data General that develops its software in Massachusetts and manufactures its hardware in North Carolina. It makes it easier for foreign emulator companies, which manufacture their hardware off shore where labor rates are low, to take advantage of U.S. antitrust law to "piggy back" on U.S. companies valuable intellectual property such as Data General's software.

In the early 1980s, a manufacturer of a competing system, sued Data General to get access to its operating system software for its NOVA computer. A system that we solely, at our own expense, developed. In response to this claim that Data General "bundles" the hardware and software components of its computer systems through its software license agreements, a court had required Data General to offer its operating system software separately from the computer system in which the software was designed to operate, and to make that software available for use with any emulator manufacturer's computer hardware.

Let me assure you, that when imitators are allowed to break off and sell portions of our system, they take from us the rightful benefits of our investment in the research and development of that complete system and discourage further investment in the future.

Although this decision was reached on antitrust grounds, the appellate court [in San Francisco] required no showing on the part of the plaintiff that Data General's policy of selling its hardware and software together had any appreciable restraint in any market. Rather, the Court *presumed* economic power and anti competitive effects merely because our product was copyrighted and attractive to some purchasers.

The appellate court thus disregarded Data General's business justifications for its marketing strategy and its market position. It is one of 14 or more competitors, in-

cluding companies such as IBM, Digital and Hewlett-Packard, all of whom develop operating system software for use with their own or other computer hardware.

The erroneous application of existing law in our case is contrary to the great weight of opinion among both economists and legal commentators. The following fundamental errors have been identified:

1. Some courts have improperly presumed that an intellectual property grant, such as a patent or copyright, confers market power or quasi-monopoly status.

I really do not feel that Data General was proven to have been engaged in an anticompetitive practice. As a matter of fact, the District Court, which had a full trial on the subject and looked at the market power issue, made a determination that there was no unreasonable anti competitive practice in this case. As a matter of fact, because of the market competition, Judge Orrick in the lower court had decided that Data General was not in violation of the antitrust laws and so ruled in a 57-page opinion.

It seems bizarre to me that a company that was proven not to have an unreasonable restraint of trade in the marketplace was yet found to be in violation of the antitrust laws simply on the basis of the fact that it had a copyrighted product.

2. The second fundamental error was that some courts have improperly presumed that many such agreements are ordinarily anti competitive.

H.R. 2674 would simply remove a pernicious presumption that unfairly tilts the "playing field" against "high-tech" developers which rely on patents and copyrights.

In 1986, Justice White had written, in dissenting with Justice Blackmun in the Supreme Court's denial of review of that decision, that it posed the serious underlying issue, "What effect should be given to the existence of a copyright or other legal monopoly [such as a patent] in determining market power."

But, as of 1987, we had not fully seen as yet the consequences of the *Digidyne* v. *Data General* doctrine in antitrust-law jurisprudence. That is what I stated in 1987. What has happened since then has justified my apprehensions at that time.

I recall nine years ago, when I testified before a Judiciary subcommittee in support of similar legislation, that many commentators and some of the witnesses before the Judiciary subcommittee predicted that this "presumption" of "market power" or "monopoly" arising from patent or copyright law protection of a component of a system of products and services as stated in the Data General case would not be utilized in future case law, because it was flawed by simplistic reasoning.

Let's look at the record. In 1988, the 101st Congress enacted the Patent Misuse Reform Act of 1988, codified in 35 U.S.C. § 271(d), which applies only to *patented* products in short, it provides in subsection (d)(5) that a patent holder should not be denied relief for infringement or deemed guilty of patent misuse (thus forfeiting patent-law protection) by conditioning a license of potential rights or the sale of a patented product on the acquisition of other rights or purchase of a separate product, "unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product. . . ."

One commentator stated that this provision "lays to rest the suggestion in dictum in Jefferson *Parish Hospital District No. 2* v. *Hyde* [1] that a *patent* may be presumed to confer market power." [2] This patent-misuse statute, however, begs this question: What determines "market power" *in an antitrust case* when one of the products or services is *patented a copyrighted?* In addition, this patent-law subsection certainly does not even address the problem of copyright-law protection, which is far more often applied to computer software and other intellectual products. Most of these products cannot be totally protected by patent-law.

At the same symposium a former head of the Department of Justice Antitrust Division said that, although the Division had changed its views in the Eighties as to the presumption of market power or monopoly arising from patent or copyright, "The Supreme Court, in dictum, in *Jefferson Parish* v. *Hyde* and in *Eastman Kodak Co.* v. *Image Technical Services. Inc.*,[3] and lower courts, in actually applying that doctrine, still seem to presume that a patent [or copyright] conveys market power." [4]

Private plaintiffs in antitrust cases seeking treble damages and injunctive relief continue to press this presumptive doctrine. For example, in the most significant recent antitrust decision of the U. S. Supreme Court. The *Eastman Kodak* case.[5] In that case twenty-nine State Attorneys General, including the Attorney General for

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[1] 466 U.S. 2, at 16 (1984).

[2] L. Peter Farkas, *Patent-Antitrust: Dead or Alive?*, 59 Antitrust L.J. 677 (1990).

[3] 504 U.S. 451, at 479 (1992).

[4] Charles F. Rule, *Patent-Antitrust: Dead or Alive? Patent-Antitrust Policy: Looking Back and Ahead*, 59 Antitrust L.J. 729 (1990).

[5] Brief of *Amici Curiae* States of Ohio *et al.*, *Eastman Kodak Co.* v. *Image Tech. Serv., Inc.*, 112 S.Ct. 2072 (1992).

my state, Massachusetts, jointly argued that, "It is the existence of uniqueness on a patent or a monopoly over a product which triggers the per se analysis [of illegality] which applies in this case." In 1995, the State Attorneys General stated in newly issued Vertical Restraints Guidelines that a "patent" *would* confer "market power" or constitute a monopoly for purposes of finding an antitrust "tying" violation.[6]

This continued reasoning—that *tying* of a patented or copyrighted product or service to another product or service automatically leads to an antitrust violation because of the presumption of market power or monopoly inherent in patent or copyright—is now, expressly rejected by the Assistant Attorney General in charge of the Antitrust Division. Anne K. Bingaman in her remarks in 1994 before the ABA Antitrust Law Section publicly stated, "We will not presume monopoly power solely from the existence of an intellectual property right." Thus, the head of the Antitrust Division in effect endorsed this bill in principle and would apply its reasoning to all forms of intellectual property rights—not only patent and copyright, but also trade secrets and trademark.[7] This view is formally embodied in the Antitrust Division's and FTC's Antitrust Guidelines for the Licensing of Intellectual Property promulgated last year. These guidelines expressly state the policy of the primary antitrust enforcement agencies:[8]

"The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power. If a patent or other form of intellectual property does confer market power, that market power does not by itself offend the antitrust laws. As with any other tangible or intangible asset that enables its owner to obtain significant supracompetitive profits, market power (or even a monopoly) that is solely "a consequence of a superior product, business acumen, or historic accident" does not violate the antitrust laws. Nor does such market power impose on the intellectual property owner an obligation to license the use of that property to others."

Yet, notwithstanding these views, this pernicious presumption persists in the courts. For example, only last year in *Datagate* v. *Hewlett Packard Co.*,[9] the defendant H–P was forced to concede the existence of market power arising from allegedly tying its own *proprietary, i.e.*, copyrighted, software services to hardware services with respect to only one customer in one transaction. Hewlett–Packard attempted to argue (in the same district court in which the *Digidyne Corp.* v. *Data General* case was tried) that the *Digidyne* opinion also stated that its rule did not apply to an alleged "single-instance tie," but the Ninth Circuit affirmed the denial of summary judgment for H–P, thus requiring H–P to undergo a lengthy trial on the market power issue. The U. S. Supreme Court refused to review this case in March of this year.

This is similar to what occurred in 1981 when the *Digidyne* v. *Data General* trial lasted over three months, as I remember. From 1978 to 1981, Data General underwent the most intense scrutiny of its marketing practices in pretrial discovery and spent millions in legal fees and wasted extraordinary time diverted from productive R&D activities.

After the trial, Data General spent additional millions in post-trial motions and appeals and underwent even more discovery and legal efforts before settling. The total bill of legal fees and settlement costs exceeded $100 million, yet I challenge anyone to explain how these costs benefitted end-users and the U. S. economy as a whole.

Nevertheless, ten years after Data General was denied cert., Hewlett–Packard appears to face trial on the same rule of law in the same district court—the Northern District of California. Clearly, antitrust plaintiffs who market "emulator" components with little or no innovative contribution are given an unfair advantage over defendants who are penalized for investing in patented or copyrights solutions. This presumption, in my view, continues to encourage merit less suits, while not affecting meritorious litigation.

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[6] National Association of Attorneys General, Vertical Restraints Guidelines § 5.I.C. (March 27, 1995), in 4 CCH Trade Reg. Rptr. ¶13,400 at 21,160.

[7] Anne K. Bingaman, *Report from Officialdom*, 63 Antitrust L.J. 323 (1994).

[8] § 2.2, 4 CCH Trade Reg. Rep. ¶13,132, at 20,735.

[9] *Datagate Inc.* v. *Hewlett-Packard Co.*, 60 F.3d 1421, 1425 (9th Cir. 1995), *cert. denied*,—— U.S.——, 64 U.S.L.W. 3641 (March 25, 1996) (No. 95–1008).

The split within the circuits on this issue also persists so that today courts hearing these cases in the Sixth or Seventh Circuits [10] or as reviewed by the Federal Circuit in patent-law case [11] and some district courts elsewhere [12] reject the presumption, whereas the Ninth and Eleventh Circuits [13] and various district courts [14] persist in prolonging this legal error, and the First and Third Circuits [15] appear to have rejected the presumption as applied to trademarks. And, the presumption persists as "Legal Gospel" writ large in the U.S. Supreme Court's dicta in *Jefferson Parish* v. *Hyde* and *Eastman Kodak*.[16]

This disagreement among the circuits unquestionably encourages forum shopping so that plaintiffs can find a court that will apply the presumption. A uniform law would end this forum shopping and treat similarly situated parties equally under the law.

We're obviously pleased that the government's antitrust enforcers have concluded that the judicially-created presumption is wrong. But, unfortunately, we are still subject to suits by private plaintiffs who have the ability to rely on demonstrably false presumptions of market power without providing proof of market power. That is why we need H.R. 2674. A plaintiff should have to prove that the claimed market power does in fact exist before a defendant is subject to the per se rule.

I hope I have conveyed to you the importance of this legislation to the computer industry. As I have noted, the prognosticators were wrong about the impact of the circuit court rulings, and 10 years later the issues and concerns raised by our industry remain unchanged.

For these reasons, I respectfully request that the Committee on the Judiciary report favorably on H.R. 2674 as proposed. I express gratitude to Chairman Hyde and Representatives Moorhead, Sensenbrenner, Gekas, Coble, Smith, Canady, Bono, Bryant, and Lofgren for sponsoring this bill.

Thank you.

Mr. HYDE. Thank you, Mr. Frank.

Mr. Handschuh.

## STATEMENT OF G. GREGORY HANDSCHUH, VICE PRESIDENT AND GENERAL COUNSEL, AMDAHL CORP.

Mr. HANDSCHUH. Chairman Hyde, and distinguished members of the committee, I am Gregory Handschuh, vice president and general counsel for Amdahl Corp. and cochair of the Computer and Communications Industry Association's task force on antitrust and intellectual property. CCIA is an association of companies employ-

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[10] *Will* v. *Comprehensive Accounting Corp.*, 776 F.2d 665, 673 n.14 (7th Cir. 1985), *cert. denied*, 475 U.S. 1129 (1986); *A.I. Root Co.* v. *Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986).

[11] *Abbott Labs.* v. *Brennan*, 952 F.2d 1346, 1354–55 (Fed. Cir. 1991), *cert. denied*, 112 S.Ct.2993 (1992)

[12] *3 P.M.. Inc.* v. *Basic Four Corp.*, 591 F. Supp. 1350, 1359 (E.D. Mich. 1984); *Allan-Myland, Inc* v. *IBM Corp.*, 693 F. Supp. 262, 281 & 41 (E.D. Pa. 1988), *vacated in other part*, 33 F.3d 194 (3d Cir.), *cert. denied*,—U.S.—, 115 S.Ct. 684, 130 L.Ed.2d 615 (1994); *Rockbit Indus. U.S.A., Inc.* v. *Baker Hughes, Inc.*, 802 F. Supp. 1544, 1549 (S.D. Tex. 1991).

[13] *Digidyne Corp.* v. *Data General Corp.*, 734 F.2d 1336, 1341–46 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985); *Thompson* v. *Metropolitan Multi-List, Inc.*, 934 F.2d 1566, 1576 (11th Cir. 1991).

[14] *Outlet Communications, Inc.* v. *King World Prod'ns. Inc.*, 685 F. Supp. 1570, 1577 (M.D. Fla. 1988); *305 East 24th Owners Corp.* v. *Parman Co.*, 714 F. Supp. 1296, 1306 (S.D.N.Y. 1989), *affd*, 994 F.2d 94 (2d Cir. 1993), *Storer Cable Communications* v. *City of Montgomery*, 806 F. Supp. 1518, 1535 n.10 (M.D. Ala. 1992).

[15] *Grappone, Inc.* v. *Subaru of New England, Inc.*, 858 F.2d 792, 798 (1st Cir. 1988); *Town Sound & Custom Tops, Inc.* v. *Chrysler Motor Corp.*, 743 F.Supp. 353, 359 (E.D. Pa. 1990), *affd in banc*, 959 F.2d 468, 479–80 (3d Cir.), *cert. denied*, —U.S.—, 113 S.Ct. 196, 121 L.Ed.2d 139 (1992); *accord, Metrix Warehouse, Inc.* v. *Mercedes-Benz of North America, Inc.*, 1989 U.S. Dist. LEXIS 13,097, at 3–4, 1989–1 Trade Cas. (CCH) ¶68,457 (D. Md. 1989).

[16] The antitrust enforcement agencies' Antitrust Guidelines for the Licensing of Intellectual Property agree with the underlying assumption of H.R. 2674 "that the law is unclear on this issue," *citing* the Supreme Court's dictum in the majority and concurring opinions in *Jefferson Parish Hospital Dist. No. 2* v. *Hyde*, 466 U.S. 2, 16 (1984), and *comparing Abbott Labs.* v. *Brennan*, 952 F.2d 1346, 1354–55 (Fed. Cir. 1991) (rejecting presumption), *cert. denied*, 112 S.Ct. 2993 (1992), *with Digidyne Corp.* v. *Data General Corp.*, 734 F.2d 1336, 1341–42 (9th Cir. 1984) (relying on presumption), *cert. denied*, 473 U.S. 908 (1985). Additional cases on this point are discussed in the accompanying memorandum.

ing over a half-million workers and generating annual revenues of nearly $150 billion.

Amdahl and the CCIA task force oppose H.R. 2674 and we hope this committee will reject this proposal as it did 6 years ago. In addition, Mr. Chairman, several other companies, innovators, and associations have joined us in opposing this bill. These include Sun Microsystems, Storage Technology Corp., Emulex Corp., and the National Association of Independent Television Stations. The committee can also expect to hear opposition from the NATV and from Martin Goetz, an innovator in our industry and the first person ever awarded a U.S. patent on software.

Mr. Chairman, first and foremost, let me emphasize that we favor strong enforcement of the antitrust laws. Vigorous antitrust protection, particularly protection against unlawful tying, is a critical component that allows innovators and investors to proceed with new ideas and products without undue fear that their path will be blocked by entrenched players attempting to leverage their proprietary rights into nonprotected areas. In my industry there are many companies that produce compatible hardware or software products designed to be used with specific operating systems or other hardware systems. If a large, integrated company that is the rights-holder for an operating system were permitted to bundle its products—that is, to require purchasers of that operating system also to buy its CPU, peripherals or applications software—that practice would put those associated compatible manufacturers out of business and would deprive the purchaser of the ability to pick and choose the components it finds most attractive on their own merits.

The lock-in effect, discussed widely in the economic and academic literature, applies with particular force in these circumstances. What the *Data General* court did was simply to recognize the ability of the owner of an operating system copyright to use the "lock-in" effect in order to deprive its customers of the freedom to buy compatible equipment. The so-called presumption under discussion here allows the courts, when faced with tying practices in which intellectual property rights provide the basis for the tie, to take appropriate cognizance of the role that those rights can play in the competitive market. As is the case, in antitrust cases generally, particularly in recent years, the courts have looked carefully to the facts and circumstances of the conduct before them in the assessment of how to address the presumption reflected in *Data General.* It is fully appropriate for the courts to carry out this case-specific process in an era in which intellectual property rights are gaining greater and greater weight as a source of both innovation and of potential anticompetitive concern. Moreover, it is odd that the very companies that are pushing to revive this bill are the same companies and interests that have pressed in the courts and elsewhere to expand the scope and protections of their intellectual property rights. They have been successful in many of those efforts. The result is that today U.S. intellectual rights have a value and force in the market greater that at any time in history. Whenever questions are raised about whether this expansion of intellectual property rights may create unfairness or dangers of anticompetitive conduct, these companies respond, "The antitrust laws will prevent such

misuse." Yet here they propose to eliminate one of the antitrust rules that has done much to encourage free innovation and investment in the U.S. computer industry.

Those in favor of the bill speak as if the *Data General* presumption were absolute and automatically condemns any tie to per se illegality. That is not so. The *Data General* presumption, like nearly all presumptions, is rebuttable. I am aware of no reported case in the past 10 years in which a claim has been made and sustained that the presumption is absolute. For this reason it is right to ask, What pressing circumstances compel Congress to take action now in this area? Nothing material has changed since 1990. Intellectual property protections have only grown stronger. No flood of meritless antitrust litigation, based on the *Data General* rule, has materialized. No thrust of valid infringement claims has been deterred by antitrust counterclaims relying on the *Data General* rule.

The presumption, by its very nature, is not appropriate in all circumstances and it has been narrowly applied. Development of this issue and the application of the law to the facts of each case requires close situation-specific analysis. To remove the matter from the purview of the courts and to pass blanket legislation is simply not appropriate. Additionally, the prophylactic effect of the *Data General* decision should not be underestimated. Corporate counsel, and the executives they advise, should think carefully before deciding to market a new product through tying mechanisms; in that way the *Paramount, Loews, and Data General* presumption accomplish exactly what it was intended to accomplish.

In conclusion, H.R. 2674 is a misguided solution to a nonexistent problem. On behalf of Amdahl, the CCIA task force, Storage Tech, Sun Micro Systems, and others I mentioned earlier, I respectfully urge this committee to leave this bill where it has been since 1990—and where it belongs—off the agenda of this committee and the Congress.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Handschuh follows:]

PREPARED STATEMENT OF G. GREGORY HANDSCHUH, VICE PRESIDENT AND GENERAL COUNSEL, AMDAHL CORP.

INTRODUCTION

Chairman Hyde, members of the Committee, I am Gregory Handschuh, Vice President and General Counsel at Amdahl Corporation. I also serve as co-chair of the Task Force on Antitrust and Intellectual Property of the Computer and Communications Industry Association ("CCIA"). CCIA is an association of computer and communications industry firms whose member companies employ over a half million workers and generate revenues of nearly 150 billion dollars. We are here today to convey our opposition to H.R. 2674, and we welcome this opportunity to explain to you why we hope that this Committee will reject the proposal this year as it did six years ago.

Let me stress that this is not a "consensus" bill that should be hurried past the public eye. Some in our industry support this measure, but most do not.

We and they fear that the bill will undermine one of the bedrock principles around which the American computer industry has grown and thrived: antitrust hostility to tying and bundling. This principle is responsible for the existence today of an independent and diverse software and hardware industry that keeps our computer systems markets competitive, innovative, and open. While this bill's proponents would like to misconstrue the antitrust doctrine, the real issues before this Committee are the broad practical consequences this bill would have for competition and innovation in this essential industry.

Let me state our position clearly. This bill is bad for innovation. It is bad for competition within the American computer industry. It is bad for the international competitiveness of the industry and will strengthen foreign high technology competitors at the expense of U.S. firms. It is bad for consumers and purchasers of computer systems. It is special interest legislation, designed and promoted by a few large and entrenched companies that seek a congressionally approved unilateral advantage. We were successful in 1990 in demonstrating the harmful impacts the bill would have during this Committee's consideration of the essentially identical predecessor to this bill. Our points are particularly valid today.

This bill would likely lead to:

Constricted opportunities for American entrepreneurs to enter, and to remain viable in, many sectors of the U.S. computer products industry, by undermining a key deterrent to more established firms' use of anti-competitive marketing practices;

Reduced choices and competition for American computer purchasers on matters of price, performance, and range of products, by endorsing tying practices that will freeze out firms whose viability depends on serving consumer interests better;

Diminished innovation in the computer industry, by creating greater vulnerability for companies for which innovation is *the* way of life;

Impaired ability of the U.S. computer companies to compete in the global marketplace; and

Undesirable incentives for dominant firms to resort to anti competitive practices.

In short, this proposal would upset a carefully composed equilibrium that has encouraged head-to-head competition for consumer patronage and has propelled our industry into continued worldwide leadership. As one commentator noted in connection with H.R. 2674's predecessor, the bill would "fundamentally alter the structure of the computer industry. . . . [It] would "reshape industry expectations about bundling, and, in conjunction with the . . . patent misuse reforms, would shift the power balance in intellectual property tying lawsuits to favor large companies at the expense of start-ups."[1]

The supporters of this bill claim intellectual outrage over a perceived inconsistency in antitrust theory and assert a desire to prevent frivolous and unwarranted antitrust lawsuits. However, the efforts of these special interests year after year to push through this bill stem not from concern over theological impurities in the canon of antitrust; they want legislative assistance to squeeze out the competition, pure and simple. Further, as I discuss below, the purported flood of merit less antitrust litigation based on the *Data General*[2] holding has never materialized. Instead, it is the strengthening of intellectual property ("IP") protection that has contributed to the vast majority of lawsuits in our industry as companies sue their competitors for patent or copyright infringement.

### THE IMPORTANCE OF ANTITRUST PROTECTION TO CONTINUED INNOVATION AND COMPETITION

Antitrust applies to both primary product markets and secondary after markets. The primary, inter brand market, is the market that is normally contemplated when discussing the importance of antitrust protection to continued innovation and competition in the computer marketplace. In addition, as the Supreme Court cogently recognized in *Kodak*, the antitrust laws also protect against other arenas of anti competitive activity.[3] In fact, competition in a primary market does not necessarily connote an absence of anticompetitive activity in *secondary* after markets.

In *Kodak*, the Court determined that, under some circumstances, a consumer who already has purchased a copier might "tolerate some level of service price increases before changing equipment brands," due to the high costs of switching copiers.[4] That toleration, in turn, would represent a frustration of ordinary market forces. Thus, although Kodak copiers represented but one product in the marketplace for copiers, it was still possible that the company enjoyed impermissible levels of market power in the secondary replacement or service markets.

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[1] Alexander E. Silverman, *Note: Myth, Empiricism, and American's Competitive Edge*, 43 Stan. L. Rev. 1417, 1438 (1991) (footnotes omitted).

[2] *Digidyne Corp.* v. *Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 926 (1985).

[3] *Eastman Kodak Co.* v. *Image Technical Services, Inc.*, 112 S.Ct. 2072 (1992).

[4] *Id.* at 2087.

That reasoning holds even more true with computers. Once a user has bought a particular operating system and begins purchasing the associated software and peripherals that are compatible with that system, it is unlikely to abandon that investment solely because of the high cost or slow rate of advancement of the system's various components. Similarly, if a manufacturer, through sales terms or proprietary secrets, is able to restrict supply of peripherals and other accessories so that all of those items must be purchased from it alone, the quality and pace of innovation associated with those parts inevitably will decrease. Fortunately, antitrust principles protect against this outcome by preventing excessive bundling of this nature.

*The Unique Nature Of Intellectual Property Warrants Careful Attention*

The bill's proponents contend that IP should receive the "same" treatment under antitrust law as other property rights. They also assert that intellectual property rights do not necessarily confer advantages that the law ought to recognize as "economic power." This strikes us at Amdahl, as the holder of a large number of intellectual property rights ourselves, as odd: having deliberately sought a protected status afforded by the law, the legislation's supporters now suggest that insulated status provides no meaningful advantage in commerce.

IP rights, because of the unique barriers to entry that they represent, necessitate careful consideration in order to ensure that what on the surface may seem "similar" treatment to that accorded other property rights in actuality does not produce *dissimilar* results. For example, IP rights, granted as a matter of public policy, should not be misused in violation of antitrust policy.

More importantly, it should make no difference in tying doctrine whether some copyrights and patents exist that afford little practical economic power. A company with weak rights has nothing to fear from the *Loews-Data General* presumption. Its internal evaluation will reach the conclusion that the presumption is easily rebutted by the absence of market power. By definition, it will not be able to enforce the tie because the tying product is weak, which means there will be no aggrieved customers or competitors to complain of damages. That some patents and copyrights provide the owner little leverage is no grounds for removing the presumption from those that *do*.

In any event, reality points to a different conclusion. Already, companies rarely shy from bringing patent or copyright infringement actions against plucky competitors. The recent changes in patent misuse doctrine make it harder for start-ups to challenge these claims. Elimination of antitrust as the sole, viable, remaining defense would have the perverse effect of *stimulating* additional IP litigation as companies feel free of the danger of an adverse antitrust finding against them.

There is nothing unjust in placing the burden of proof on the party wishing to engage in this historically suspect activity—the same party that possesses the information necessary to determine whether its behavior warrants sanction.

In this respect, it is the *practical* consequences of the presumption in the real world—not the proponents' theoretical construct of antitrust abstractions—that should guide this Committee. The proponents would have the courts ignore the very patent or copyright that the owner is using as the vehicle to implement the tying coercion, and thereby force the victims of the tie to carry the full burden of a market power case. Such cases are astronomically expensive, as this Committee knows. In the vast majority of instances, the cost and length of developing a market power case is prohibitive for the competitors who would challenge the tie. The advantages possessed by the defendant tying firm are vast: superior resources, superior information on the market and customer base, and availability of delaying tactics, not to mention the profits reaped from the tie during the pendency of the litigation. In the *Data General* case, in which the cases of seven plaintiffs were consolidated in a single action (thus permitting some sharing of the costs of litigating the issue), the litigation took *seven years* to proceed through trial and appeals on the *liability* issue alone.[5]

As various commentators have acknowledged, this bill will make it nearly impossible for capital-scarce start-ups to survive an infringement suit brought by an established market participant. The more established entity, armed with "far greater legal and financial resources than the start-up," will be able to compel unfairly a settlement "on unfavorable terms."[6]

The proponents of this bill know that a legal challenge to anti competitive tying, without the *Loews-Data General* presumption, is empty. That is why they are so

[5] The case involved review of over 600,000 documents, 150 depositions, hundreds of interrogatories and requests for admissions, and 45 days of trial time on the economic power issue alone. *In re Data General Corporation Antitrust Litigation*, 529 F. Supp. 801, 805.

[6] Silverman, *supra* note 1, at 1442.

eager to see the presumption eliminated. It may be too much to expect them to be candid about this objective as they make pious reference to freeing intellectual property rights from antitrust impediments. But at bottom, it is these factors—who bears the burden and expense of showing economic power, and whether a meaningful deterrent is in place to restrain holders of patents and copyrights from anti competitive use of ties—that are at stake in this hearing.

*The Antitrust-IP "Conflict"*

The question before this Committee has also been framed as one of conflict between the law's protection of intellectual property, on the one hand, and its commitment to preserving the competitive dynamics of our free enterprise system on the other. In our view, that tension can be—and has been—vastly overstated. In principle and in practice, both sectors of the law have a common social objective: to foster innovation and creativity.

The current balance in the law is even-handed. It enables innovators to protect what they truly create, which is subject to patent or copyright. But it does not allow them to expand or leverage those protections unfairly to other unpatented or uncopyrightable products, or to exclude competition in those products by other innovators. The current law is balanced to reward creativity, but also to leave room for innovative thrusts from multiple sources where IP rights are not infringed.

We at Amdahl and our colleagues at CCIA think the Committee should know that there are many in this important industry who think the clamor to undermine the enforcement of antitrust law is not desirable or compelled in order to provide meaningful intellectual property rights. The debate over H.R. 2674 is reflective of this issue, and it is one on which there are strong grounds to defend the balance struck in the current law.

A LEGISLATIVE RESPONSE TO THIS ISSUE IS UNWARRANTED AND WOULD BE UNWISE

As noted below, development of the law in this area has proceeded on a case-by-case basis, accompanied in each instance by exhaustive, fact-intensive inquiry. One Committee hearing, followed by a quick mark-up and passage to the floor, should not be allowed to undo all of that deliberation. As one scholar has noted, "common law [antitrust] jurisprudence has a richness and reality that abstract deductive models may lack."[7] "Antitrust decisions often lead economic analysis" through "case specific, factual analysis" and the development of "rules incrementally based on individual fact patterns."[8]

In this regard, the course of the court's deliberation in *Data General* is revealing. In that case, the jury sat through a 45-day trial on the economic power issue before rendering a verdict against Data General, and a massive record detailing the lock-in phenomenon was submitted to the court. It is certainly safe to say, Mr. Chairman, that the record supporting the court's application of the presumption in *Data General* was far more detailed and compelling than the record the proponents of H.R. 2674 have presented to this Committee in support of the presumption's obliteration.

Moreover, proponents of the bill point to no compelling circumstance that would justify congressional action, much less hasty action of the sort contemplated here. The bill's supporters regularly raise the specter of multiple and frivolous litigation; yet, when pressed, they offer no solid examples.[9] Not for at least 10 years has there

[7] Warren S. Grimes, *Antitrust Tie-In Analysis After Kodak, etc.*, 63 ANTITRUST LAW JOURNAL 267 (Sept. 22, 1994).

[8] *Id.*

[9] Back in 1990, during consideration of the predecessor to this bill, Hewlett Packard ("HP"), a prominent advocate then and now of the bill, attempted to sway the Subcommittee in its favor with a moving vignette of one of the supposed horrors wrought by *Data General.* HP claimed that, under the reasoning of that case, it might be required to compromise the safety of its electronic monitor used to detect heart arrhythmia. "The monitor can be characterized as a special-purpose computer with a copyrighted operating system." Silverman, *supra* note 1, at 1427. HP complained that, without the proposed legislation, the *Data General* decision might force it to unbundle the monitor and sell the software separately. The software, HP fretted, thereby might end up in the hands of a less capable or unfamiliar company not subject to the strict quality controls used by HP, with potentially disastrous results for unsuspecting patients. *Id.*

Unfortunately for HP, "[t]he story is disingenuous, inasmuch as the heart monitor is currently made and sold as a unit and has been for some time." *Id.* It thus fails the first element required for a tying claim (*i.e.*, that the two items in question be sold separately). This one example of hyperbole employed by a prominent supporter of the earlier bill should serve as a caution to this Committee to view with skepticism the unsupported claims of this bill's proponents.

been a reported decision in which a company attempted to seek per se tying relief based solely on the fact that the defendant holds a patent or copyright.[10]

Moreover, as discussed above, the effect of H.R. 2674 will be exactly the opposite of its proponents' claims: a probable *increase* in IP litigation, as established companies, free of the fear of antitrust liability and with the incentive to over claim their IP rights, push to move competitors out of the marketplace. This Congress has expressed much concern over the expenses imposed on America's businesses by waves of litigation that distort the normal incentives of the market; it is ironic that this Committee now is considering a measure that will exacerbate that problem.

PASSAGE OF THE BILL WILL SEND THE WRONG SIGNAL

For Congress to insert itself into an area where the courts repeatedly have spoken will send a clear signal to the computer industry announcing an "open season" on start-ups and small enterprises through predatory competition by the industry's goliaths. It will set a disturbing precedent for congressional involvement whenever a powerful and influential interest feels aggrieved by the judicial process. To the extent these companies feel they possess the better of the argument, let them battle in the arena best suited for weighing their claims that antitrust liability is not warranted—the courts—and not through the blanket measures afforded through legislation.

HISTORY OF TYING PRACTICES IN THE COMPUTER INDUSTRY

In order best to understand the importance of this issue, some background on our industry would be helpful. Bundling and tying arrangements strike at the very heart of the computer industry. In the early days of our industry, it was common for manufacturers to "bundle" a variety of products into a package to sell to computer users. It was also common for manufacturers to give away software related to their hardware products including the operating system software that contains the basic instructions that tell the machine how to operate. This meant, in essence, that users had only one source of computer products once they had committed to a basic system.

As computing demands grew in the 1960s, it became apparent—to computer users, to industry innovators, and to the antitrust authorities—that this practice of bundling had stifling effects on competition, on product innovation, and on the cost of data processing. The "lock-in" effect, whereby consumers, once committed to a basic system, find themselves unable readily to switch to another system, a result of what is called in the academic literature a "network externality." The computer industry offers a paradigmatic example of "network externalities" at work.

These externalities operate in two ways. First, as discussed above, after investing a substantial sum of money in the "primary" good, such as the operating software, and all of the "after market" goods designed to be compatible with that software, the user is unlikely to switch systems even if the cost of the accessories is higher than those for other systems or if the system itself is inferior in quality."[11] In order to switch, the user would "have to abandon sunk investments in software and employee training, and give up the benefits, or positive network externalities, of operating a uniform computing platform."[12] Users in these situations will switch primary systems only in response to sharp increases in price of their current systems or dramatic improvements in quality of the new products.[13] Moreover, this dynamic suggests that the "lock-in" will remain effective through successive purchases of the primary product; each time, the user will fear the substantial costs associated with a switch to a new system and will return to an upgraded, fully compatible version of the old.

Another insidious effect of this phenomenon is on new users. As the Department of Justice itself has explained:

> The value of an operating system to a consumer is directly related to two factors: the availability of a variety of high quality applications that run on that system, and the number of users who use that operating system and thus are able to share information and work with the system without additional training. [Independent software vendors], in turn, tend to develop applications for operating systems with a large installed base of users, and

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[10] *A.I. Root* v. *Computer/Dynamics, Inc.*, 806 F.2d 673 (6th Cir. 1986). In that case, the plaintiff was unsuccessful.

[11] *See* Kattan, Joseph, *Market Power in the Presence of an Installed Base*, 62 Antitrust L.J. 1 (June 1993) (calling this tendency the "installed base phenomenon").

[12] *Id.*

[13] *Id.* (discussing the leap from LPs to compact discs as an example of the latter).

consumers gravitate towards operating systems with a large base of applications.[14]

In other words, the more attractive a system becomes, the less likely it is that new users will select another. Thus, initial success frequently becomes self perpetuating, long after any merit-based justification has vanished. "These considerations indicate that a network (or technological standard) will usually be an antitrust market."[15]

*Change In The Industry Brought New Opportunities And Dangers*

Recognition of the dangers posed by these externalities came quickly. In the 1970s, under pressure from the antitrust enforcers and the courts, the industry leaders unbundled their products, so that consumers would be free to buy competitive components of hardware and software in assembling their computer systems. This led to the development by independent innovators of compatible products that could interconnect and function along with the base of already-installed systems.

The result of this unbundling was the most rapid and dynamic period of growth in the history of any industry with a competitive marketplace. New products and applications flowered, and the Silicon Valley—which is Amdahl's home—was born.

As the unbundling of software led to major independent software breakthroughs, the need became evident to afford some protection to software to prevent blatant copying, and Congress extended copyright protection to software in 1976. One consequence of this action was that the large computer manufacturers were able to affix a copyright to their operating system software. Some of them seized this opportunity to begin an aggressive program of tying arrangements, designed to kill off competition from vendors of compatible products. These programs took the form of a new licensing conditions, whereby the manufacturer licensed the user to use the now-proprietary operating system only in connection with hardware provided by the manufacturer. Users had little choice but to succumb to these conditions, since it was not economically feasible to scrap their installed systems in order to switch to a new vendor that did not impose such ties.

The threat to computer users, and to the growth of the industry, from such restraints was obvious. The makers of compatible products sued. One result was the *Data General* case, in which the Ninth Circuit in 1984 ruled that such ties were prohibited by traditional antitrust doctrine. *Data General* applied settled antitrust law—based on Supreme Court precedent in *Paramount, Loews, Fortner* and other cases[16]—to protect competition by requiring a copyright holder in a tying case to bear the burden of showing that it does not possess power to dominate a relevant market by virtue of its ability to exclude compatible competitive products through the exercise of overreaching claims of copyright.

*Data General* merely confirmed the fundamental understanding of the rules around which much of our industry has developed. Few innovators would have had the courage to start new ventures to develop computer products that were faster or offered better performance if industry's giants could foreclose their customers from buying those products through blatant new tying or bundling conditions. Few venture capitalists would have funded such enterprises under such conditions. Yet that is precisely the world the proponents of this bill desire to create.

Since a Subcommittee of this Committee last considered this bill in 1990, the dangers associated with "network externalities," particularly in the computer industry, have become even more widely understood. One way around the negative effects of these externalities is to make new technologies compatible with old ones—hence, the virtues of open systems. However, the continued existence of open systems increasingly has come under fire from those laboring under misunderstood and misguided conceptions of intellectual property rights. Now, supporters of the bill see in the trend toward stronger IP protection the possibility of a quiet push toward their goal of eliminating open systems and returning to the days of bundling and tying. The need for a continued, strong antitrust law to protect against that outcome is paramount.

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[14] John E. Lopatka and William H. Page, *Microsoft, Monopolization, and Network Externalities: Some Uses and Abuses of Economic Theory in Antitrust Decision Making*, 40 *Antitrust Bulletin* 317 (Jun. 22, 1995) (quoting the Department of Justice Complaint against Microsoft at ¶17). The Department's recent investigation of Microsoft demonstrates its recognition of these dangers.

[1] *Id.*

[16] *United States* v. *Paramount Pictures*, 334 U.S. 131, 68 S.Ct. 915 (1948); *United States* v. *Loew's Inc.*, 371 U.S. 38, 83 S.Ct. 97 (1962); *United States Steel Corporation, et al.* v. *Fortner Enterprises*, 429 U.S. 610, 97 S.Ct. 861 (1977) ("Fortner II").

The beneficiary of the competition that the hundreds of companies like ours and the other CCIA members have provided has been—not surprisingly—the consumer. Prior to Amdahl's entry into the large systems market in 1975, the price of computing performance was increasing sharply. After Amdahl's entry, purchasers—including numerous agencies of the federal government—of large-scale systems have enjoyed measurable improvements in price and performance.

Chairman Hyde, may I suggest—as I did in 1990 to your predecessor—that you have your staff talk with the purchasing officials of federal agencies. They will confirm that their ability to buy compatible computer hardware and software is essential to keeping the government's data processing costs under control, and to assuring a choice of modern, innovative technologies. They will confirm also that tying their hands, through licensing conditions that would require them to buy hardware from the vendor holding a copyright on an operating system software, would be detrimental in every respect. In an age of budget austerity and fiscal cutbacks, the effect of a return to the early days of bundled technology products and closed systems would be counter-productive. The impact on federal agencies by this bill mirrors the effect on private industry.

## THE ATTACK ON THE ANTITRUST TYING RULES

What precisely is the legislative attack on the *Loews-Fortner-Data General* line of decisions intended to achieve? And on what is it based?

As noted above, the bill is designed to eliminate the central discipline that operates, in our industry and in others, to prevent economic overreaching by holders of government-granted exclusive intellectual property rights. In our industry, the bill is constructed to permit maximum exploitation of the phenomenon of "lock-in," by which computer purchasers are precluded as a practical matter from switching to a substitute once they have invested in a set of data processing applications that run on the copyrighted operating system.[17] The *Loews-Fortner-Data General* rule rightly causes the beneficiaries of copyright protection to think twice before they attempt to impose a tie, and this is as it should be.

Second, this bill is explicitly designed to concentrate opportunities and rewards for innovation. It seeks to do so by asserting an imbalance between antitrust and intellectual property protections, an assertion which is unfounded. We at Amdahl hold a large portfolio of patents and copyrights, so we are fully solicitous of the intellectual property laws. But we think the tension between antitrust and intellectual property has been overstated in some areas—and this is a prime example.

Finally, it is most odd that the proponents of this bill—who successfully have pressed Congress and the Uruguay Round to expand the scope of copyright and to add new power to patents, and now are lobbying vigorously for the Clinton Administration to enforce those rights abroad—take the position before this Committee that patents and copyrights have no presumptive power and should be regarded no differently than ordinary property rights. Given the trend of recent years to add to the scope and value of patents and copyrights, this Committee should be even more careful about considering changes that would eviscerate the antitrust laws protection against market abuse of these special exclusionary rights.

### *The Loews-Fortner-Data General Rule*

The established antitrust rule is that a tie-in is *per se* illegal where (1) the seller conditions the sale (or lease) of one product (the tying product) on the purchase of another, separate product (the tied product); (2) the seller has sufficient economic power with respect to the tying product to coerce an appreciable number of buyers to purchase the tied product, and (3) the tie affects a substantial amount of commerce in tied product.[18] The seller has the requisite economic power, the Supreme Court recently affirmed, where it has the "leverage . . . to induce his customers for one product to buy a second product from him that would not be purchased solely on the merit of that product."[19]

A string of Supreme Court cases between 1948 and 1984—*Paramount, Loews, Fortner, and Jefferson Parish*—established that, where the seller uses a patent or copyright on the tying product to force sales in the tied product, the patent or copyright will cause the tying product to be "regarded as sufficiently unique to give rise

[17] It is interesting to note that the bill, as currently worded, also may create unintended effects on other industries, including, *inter alia*, on the cable and independent broadcast industries by overruling the prohibition on "block booking" addressed in *Paramount* and other cases.

[18] *Jefferson Parish Hospital Dist. No. 2* v. *Hyde*, 466 U.S. 2, 18–26, 104 S.Ct. 1551, 1561–65 (1984); *Fortner Enterprises* v. *U.S. Steel Corp.*, 394 U.S. 455, 458500 (1969) ("Fortner I").

[19] *Jefferson Parish Hospital*, 466 U.S. at 14, 104 S.Ct. at 1559 n.20 (quoting P. Areeda & D. Turner, *Antitrust Law* ¶1134a at 202 (1980).

to a presumption of economic power."[20] The Court's 1984 *Jefferson Parish Hospital* decision reiterated this rule:

> [P]er se prohibition is appropriate if anticompetitive forcing is likely. For example, if the government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power.[21]

That presumption, of course, may be rebutted if shown to be inappropriate. The presumption merely shifts the prima facie burden to the antitrust defendant to make that case. *Data General* did no more than apply this familiar rule to the efforts of some in the computer industry to leverage their operating system copyrights to compel purchasers to buy computer hardware from the proprietary owner, and to block sales of compatible hardware by other manufacturers. The *Data General* opinion, written by then–Chief Judge Browning of the Ninth Circuit, recognizes the unique extent to which ties in the computer industry are magnified by the phenomenon of technological "lock-in." The Court accurately describes how the process of adopting a computer system to the particular user's needs inevitably results in "locking in" the user to the proprietary operating system: the user must develop application programs that adapt the computer system to the user's specialized needs; these applications must be designed to function with the operating system that controls the machines; once it has invested large sums, time, and training in one set of application programs for its system, it is economically infeasible for the user to abandon its investment and start all over again with a different system. Consequently, if the company that supplied the operating system threatens to withdraw the copyright license if the user buys equipment from a competing vendor, the user has no choice but to succumb to the tie. To resist could put the user in an immediate position of infringing the copyright, subjecting it to legal and financial jeopardy even if the competing vendors produce this better and cheaper.

While some other courts have taken issue with the reasoning in *Data General,* the Supreme Court has not repudiated its repeated invocation of the presumption. Indeed, in *Kodak,* while not directly addressing the presumption, the Court eased the standard for market definition in recognition of the dangers associated with network externalities, allowing antitrust plaintiffs to focus on the real-world effect of anticompetitive activity.

It is important not to misstate the rule that *Data General* (and the Supreme Court cases on which it is based) established. That case does not mean that "market power is *always* present in a technical antitrust sense when a product protected by an intellectual property right is sold, licensed, or otherwise transferred."[22] Nor does it mean that "when a patented or copyrighted product is sold with any other product, it is automatically reviewed under a harsh per se standard even though the patented or copyrighted product may not have any market power."[23] The presumption used in *Loews, Fortner, Jefferson Parish, and Data General* merely places the prima facie burden on the tying party of demonstrating that no market power is present. If the tying party discharges that burden, the onus then would return to the plaintiff conclusively to prove the existence of such power or lose the ability to support a per se claim.

*The Effect of the Presumption*

What has been the effect of the *Loews-Data General* presumption in our industry?

As a practical matter, the presumption has operated in the marketplace as a deterrent to anti-competitive behavior, requiring the large manufacturers to think twice about the antitrust laws before implementing a tying arrangement. After all, anti competitive tying arrangements are willful exercises of market power that are not in the public interest and should remain violative of antitrust policy and antitrust laws.

In my view as a practicing corporate counsel, the presumption's most meaningful impact is not in the courts but in the exchange between these companies' marketing executives and their attorneys. It compels the would-be tying manufacturer to evaluate carefully the market situation and its own economic power arising from the copyright, before proceeding with product bundles or ties. This is, after all, information uniquely in the tying firm's possession, which that firm has the unique opportunity to evaluate before the tie is imposed and the damage is done.

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[20] *Fortner II*, 429 U.S. at 619, 97 S.Ct. at 867.
[21] *Jefferson Parish Hospital*, 466 U.S. at 16, 104 S.Ct. at 1560.
[22] 141 Cong. Rec. E2225 (Nov. 20, 1995) (remarks of Chairman Hyde) (emphasis added).
[23] Id.

Of course, if a seller believes a tie can be justified, it may proceed in that manner. If a prospective competitor then challenges the arrangement, the tying firm's courtroom response is simply to show why it believed the tie was permissible, using the market, product and customer analysis already available in its deliberations about permissibility.

The proponents of this bill seem fearful of this limited discipline. They seem to want liberation from the weight of the deterrent that the courts have carefully designed. They complain, most basically, that the presumption accomplishes *exactly* what it was *supposed* to accomplish: it induces thoughtfulness in corporate suites about compliance with the tying laws, and it discourages the cynical approach—which was so evident in the practices challenged in *Data General*—that dares competitors to sustain a full market power case in the courts if they wish to stop a blatant tie.

CONCLUSION

For the reasons discussed above, we do not believe any legislative remedy in this area is needed. Nevertheless, if the Committee desires to take some action, H.R. 2674 certainly would be a step in the wrong direction—backward, rather than forward.

If this Committee feels it important to make clear the rebuttable nature of the presumption discussed in *Data General* so that companies contemplating a potentially legitimate tying or bundling arrangement will not fear unwarranted liability we respectfully suggest the alternative championed by the late Rep. Michael Synar (D-Oklahoma), who served so ably on this Committee. Rep. Synar proposed a bill in 1990 that made the rebuttable nature of the presumption explicit. He garnered the support of his subcommittee for that alternative. The measure never received the attention of the full Committee. *If* any legislation is needed in this area, perhaps now this Committee might consider a "Synar amendment" as a compromise that would protect the continued vitality of the computer industry while affording some further measure of clarity to the law.

Of course, the proponents of legislation have made no case that any bill is needed. Though they charge that the *Data General* presumption means automatic liability for any IP-holder who employs a tie, they show this Committee no examples in which this has occurred. The fact is, simply, that the courts do *not* use the *Data General* rule as an irrebuttable presumption, and the *Data General* court—which merely applied longstanding Supreme Court precedent—never contemplated that they would. The main impact of the presumption is in the corporate suites, as a precaution and discipline that should be evaluated when tying arrangements to IP rights are proposed. Such corporate prudence is healthy, productive, and pro-competitive. This Committee should proceed cautiously and not adopt this bill.

Mr. HYDE. Thank you, Mr. Handschuh.

Mr. KIRK.

## STATEMENT OF JOHN R. KIRK, JR., CHAIR-ELECT, SECTION OF INTELLECTUAL PROPERTY LAW, AMERICAN BAR ASSOCIATION

Mr. KIRK. Thank you, Mr. Chairman. I appreciate the opportunity of being here and the invitation that was delivered to the American Bar Association.

I am John R. Kirk, Jr., chair-elect of the Section of Intellectual Property Law of the American Bar Association. The testimony I offer today is on behalf of the American Bar Association. In 1989, the Section of Intellectual Property Law passed a resolution in support of H.R. 469 of the 101st Congress, a bill by Congressman Fish that the chairman mentioned earlier today, which is virtually identical to the substance of the present H.R. 2674. The House of Delegates of the American Bar Association adopted this resolution as the policy of the association in 1990, and on February 8, 1990, a representative of the association testified in favor of the legislation before this committee and today's testimony supports Chairman Hyde's bill, H.R. 2674.

The perception that intellectual property, in and of itself, possesses market definition or market power is unwarranted and should be eliminated by this legislation. All elements of market power should be the subject of proof in antitrust matters, and no form of property should be treated any more harshly through the use of a presumption than any other property. To apply presumption of market definition or power to intellectual property reduces its value and the incentives of a business to employ these valuable tools in a business, or to license them as a part of a plan to commercialize technology.

Legislation to remove this presumption is required because of the spotty, inconsistent application of our courts in antitrust matters when intellectual property is involved, and we've heard discussions of that today, already. In some cases it has been expressly applied and while in others, only by implication. In some cases even the presence of the presumption has been reaffirmed and criticized in the same case. Where an antitrust counterclaim is present in the appeal of a patent infringement action, the court of appeals of the Federal circuit applies the presumption based upon the precedent of the circuit courts of appeal of the circuit from which the appeal came, thus, the Federal circuit decisions must apply inconsistent approaches to the presumption based upon its geographical origin.

In 1992 the Advisory Commission on Patent Law Reform recommended in proposal VI–C that the presumption be abolished by legislation. You've already heard testimony about the DOJ and FIC guidelines for licensing intellectual property. Intellectual property should be treated the same way as any other factor used to determine whether or not there is an antitrust violation. Clarity provided by removing any presumption of market definition or power allows a business—whether it is an emerging business or a mature business—to properly assess the risk of its conduct and not face the possibility that its exercise of a constitutionally-based intellectual property grant would increase that risk and thus devalue the intellectual property and, consequently, lower the incentive and effort made to create the property.

Science and the useful arts progress because of the development of intellectual property. That progress occurs in large part because of the intellectual property rights obtained. The presumption creates an artificial and inconsistent barrier to that progress.

The American Bar Association respectfully urges passage of H.R. 2674. There is, however, language in the bill that may be construed as limiting the applicability of the legislation, resulting in situations where the presumption may continue to be applied. We propose a slight fix to the language by deleting the phrase, "in connection with the marketing or distribution of a product or service protected by such a right." Though the words are few in H.R. 2674, we feel the impact on emerging businesses and our mature businesses is great. Risk determination will become more certain in the marketplace without diminishing the ability of antitrust plaintiffs, where intellectual property is present, to asset causes that are rightfully theirs.

Again, I thank you on behalf of the ABA for allowing me to appear.

[The prepared statement of Mr. Kirk follows:]

PREPARED STATEMENT OF JOHN R. KIRK, JR., CHAIR-ELECT, SECTION OF INTELLECTUAL PROPERTY LAW, AMERICAN BAR ASSOCIATION

Mr. Chairman and Members of the Committee, I appreciate the opportunity to present the views of the American Bar Association in support of the enactment of H.R. 2674. The ABA believes that Congress should eliminate the presumption in some judicial decisions that intellectual property defines a market or establishes market power in actions under the antitrust laws.[1]

Our concern is that the presumption not only is unwarranted, but treats intellectual property differently, and more harshly, than other forms of property under the antitrust laws.[2] In so doing, it arbitrarily lowers the incentives to creating technical advancements and thus may deter technological development and competition.

The bill provides that intellectual property rights will not be presumed to define a market, to establish market power, or to establish monopoly power. To illustrate the presumption that the bill addresses—and how counter-intuitive that presumption is—assume that a patent protects a new and different type of handle for a screwdriver.

Since a relevant market is essentially a group of products or services that are reasonably interchangeable with each other,[3] a presumption of a relevant market from the mere existence of the patent would assume that no other screwdrivers compete with screwdrivers having that new type of handle. In a relevant market, however, market power is essentially the ability to raise prices above or restrict output below the competitive level,[4] and monopoly power is the extreme form of market power.[5] A presumption of market or monopoly power in this example would presume that the owner of the patent for the new type of handle could successfully raise prices for screwdrivers with that handle a significant amount above the prices of screwdrivers with other types of handles, and maintain those higher prices for a substantially long time. Obviously, common sense teaches that a screwdriver, even one with a fancy handle, competes with ordinary screwdrivers, and that the manufacturer of fancy-handled screwdrivers cannot keep its prices substantially higher than prices of ordinary screwdrivers for very long if it hopes to sell large numbers of them.

These three concepts—relevant market, market power, and monopoly power—are important elements in establishing various types of antitrust violations. They are essential to prove monopolization and attempted monopolization in violation of Sherman Act § 2,[6] and an illegal tie-in in violation of Sherman Act § 1.[7] In addition, some courts require or allow proof of market power to establish an illegal restraint of trade under the rule of reason in violation of Sherman Act § 1.[8]

The courts have not uniformly handled the issue of market power for intellectual property. Some courts have held that when a person has an intellectual property right, a plaintiff in an antitrust case against that person is entitled to a presumption that the intellectual property right owner has market power in a relevant market. For example, the Supreme Court in *United States* v. *Loew's Inc.*, 371 U.S. 38, 45 (1962), endorsed the presumption that an intellectual property right gives rise to market power. In *Jefferson Parish Hospital District No. 2* v. *Hyde*, 466 U.S. 2 (1984), however, the Supreme Court split on the issue. The majority, in dicta, re-

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[1] In 1990, the House of Delegates of the American Bar Association adopted a policy position in support of H.R. 469, 101st Cong., a bill to provide that intellectual property rights shall not be presumed to define a market or to establish market power in actions under the antitrust laws. The ABA testified in support of that bill, which had essentially the same provisions as H.R. 2674. *See* testimony of Norman P. Rosen in *Intellectual Property Antitrust Protection Act of 1989: Hearing on H.R. 469 Before the Subcommittee on Economic and Commercial Law of the House Judiciary Committee*, 101st. Cong., 2nd Sess., 59–70.

[2] The text of the 1990 ABA resolution is as follows: "BE IT RESOLVED, That the American Bar Association favors in principal legislation such as H.R. 469, 101st Cong., 1st Sess. (1989) (Fish) and S. 270, 101st Cong., 1st Sess. (1989) (Leaky) which provides that intellectual property rights shall not be presumed to define a market or to establish market power in actions under the antitrust laws;

"RESOLVED, That the Association recommends such legislation cover specifically the licensing of or refusal to license such rights."

[3] *United States* v. *E.I. Du Pont de Nemours & Co.*, 351 U.S. 377, 394–95 (1956); *Eastman Kodak Co.* v. *Image Technical Services, Inc.*, 504 U.S. 451, 469 & n.15 ( 1 992).

[4] *National Collegiate Athletic Assoc.* v. *Board of Regents*, 468 U.S. 85, 109 n.38 (1984); *Fortner Enterprises. Inc.* v. *United States Steel Corp.*, 394 U.S. 495, 503 (1969).

[5] *Du Pont*, 351 U.S. at 391; *see Kodak*, 504 U.S. at 481 (1992) ("Monopoly power under 2 requires, of course, something greater than market power under § ").

[6] *United States* v. *Grinnell Corp.*, 384 U.S. 563, 570 (1966); *Spectrum Sports, Inc.* v. *McQuillan*, 506 U.S. 447, 455 (1993).

[7] *Kodak*, 504 U.S. at 462; *Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2, 13–14 (1984).

[8] *United States* v. *Brown Univ.*, 5 F.3d 658, 668 (3d Cir. 1993); *Wilk* v. *American Medical Ass'n*, 895 F.2d 352, 359 (7th Cir.), *cert. denied*, 498 U.S. 982 (1990).

affirmed the presumption based on *Loew's*,[9] while four Justices in a concurring opinion concluded that a patent or copyright alone would not demonstrate market power:

> A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.

*466 U.S. at 37 n.7 (O'Connor, J., concurring). One year later, in 1985, Justices Blackmun and White dissented from the Court's decision to deny a petition for a writ of certiorari in Digidyne Corp.* v. *Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985), urging the Court to address the issue of "what effect should be given the existence of a copyright or other legal monopoly in determining market power." 473 U.S. at 909.

In the absence of clear guidance from the Supreme Court, some lower courts have followed the concurring opinion in *Jefferson Parish*,[10] while other courts have applied the presumption.[11] The Federal Circuit, which decides appeals in most patent cases, has rejected a market power presumption for intellectual property in the antitrust context.[12] On antitrust issues, however, the Federal Circuit follows the precedent of the regional circuit court of appeals for the region for the trial court in the particular case,[13] and those courts of appeals vary in applying the presumption.[14]

The two federal antitrust enforcement agencies—the U.S. Department of Justice Antitrust Division and the Federal Trade Commission—recently considered the presumption, and rejected it in their Guidelines for the Licensing of Intellectual Property:

> The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power.[15]

Moreover, in 1988, Congress clarified the problem of divided circuit law in the closely related patent misuse context by providing that a patent owner must have market power to establish a tie-in misuse.[16] In so doing, Congress indicated that market power of a patent should be proven rather than presumed.

The ABA agrees with the antitrust enforcement agencies, the concurring opinion in *Jefferson Parish*, and the other courts that have rejected the presumption. As illustrated above, the presumption defies common sense. When reasonable substitutes exist for a product protected by intellectual property—as is usually the case in the

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[9] "[at the Government has granted the seller a patent or similar monopoly over a product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power. *United States* v. *Loew's Inc.*, 371 U.S. 38, 4547, 83 S.Ct. 97, 102–03, 9 L.Ed.2d 11 (1962). Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer make all his purchases of a separate tied product from the patentee is unlawful." *Jefferson Parish*, 466 U.S. at 16.

[10] *E.g.*, *A.I. Root* v. *Computer/Dynamics, Inc.*, 806 F.2d 673, 676–77 (6th Cir. 1986); *Will* v. *Comprehensive Accounting Corp.*, 776 F.2d 665, 672 (7th Cir. 1985), *cert. denied*, 475 U.S. 1129 (1986).

[11] *E.g.*, *Digidyne Corp.* v. *Data General Corp.*, 734 F.2d 1336, 134142 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985).

[12] *Abbott Labs.* v. *Brennan*, 952 F.2d 1346, 1354 (Fed. Cir. 1991) (applying law of Sixth Circuit, which rejects presumption), *cert. denied*, 505 U.S. 1205 (1992).

[13] *Loctite Corp.* v. *Ultraseal, Ltd.*, 781 F.2d 861, 875 (Fed. Cir. 1985).

[14] *Compare Abbott Labs.*, 952 F.2d at 1354 (applying law of Sixth Circuit, which rejects presumption), *with Atari Games Corp.* v. *Nintendo of America, Inc.*, 897 F.2d 1572, 1576 (Fed. Cir. 1990) (applying law of Ninth Circuit, which endorses presumption).

[15] Antitrust Guidelines for the Licensing of Intellectual Property issued by the U.S. Department of Justice and Federal Trade Commission §2.2, 1995 WL 229332 (April 6, 1995).

[16] 1988 Amendments to 35 U.S.C. §271(d)(5) provide in pertinent part that misuse shall not exist in the case of tying unless "the patent owner has market power in the relevant market for the patent or patented product on which the license or sale is conditioned." *See also*, *In re Recombinant DNA Technology Patent and Contract Litigation*, 850 F. Supp. 769, 775 (S.D. Ind. 1994) (indicating that no presumption of market power would suffice to establish misuse under §271 (d)(5)).

American marketplace—the intellectual property confers no real ability to raise or control prices. Similarly, where others can readily enter the market if prices rise significantly, the intellectual property confers no real market power. Consequently, in virtually all cases, the intellectual property would not yield market power, and any presumption of market power would therefore not be warranted.

Removing the presumption of market power for intellectual property would treat intellectual property the same as other assets which carry no such presumption. In other types of cases, market power is determined by factors such as the presence of competing technologies, the availability of substitute products, entry barriers, market share, profit margins, and pricing. These factors, analyzed on a case-by-case basis, are truer indicators of market power that an unwarranted presumption.

Moreover, such a presumption can harm competition. With the presumption to assist in proving an antitrust violation where intellectual property is involved, the risk of antitrust treble damage liability for licensing intellectual property increases. Simple common sense teaches that as that risk increases, the value of the intellectual property decreases. And decreased value lowers the incentives for American companies to invest in developing new and improved technologies, and to license those improvements to others. Yet these improvements in technology, used in the marketplace to compete with older technologies and with other developments, keep competition vibrant in our economy. As long as the Supreme Court or any courts of appeals employ that presumption, that risk and those disincentives to developing, disseminating, and competing with improved technology will continue.

Furthermore, while lessening the incentives for intellectual property owners to develop and disseminate these tools for competition, the presumption does not further the antitrust law's objective to prevent anticompetitive practices. Removing the presumption, on the other hand, will simply require antitrust plaintiffs in intellectual property cases to meet the same requirements as antitrust plaintiffs in other types of cases.

Consequently, the ABA strongly believes that intellectual property should stand on an equal footing with other types of assets with no presumption of market power, and endorses the approach of H.R. 2674.

The ABA suggests certain changes, however, to fulfill the purposes of the bill. Section 2 of the bill prohibits the market power presumption in any action involving conduct "in connection with the marketing or distribution of a product or service protected by [an intellectual property] right. . . ." This language appears to leave many situations in which the presumption could still exist. For example, a court might not construe the quoted language to also include provisions in agreements in connection with the licensing of or refusal to license an intellectual property right, or in connection with intellectual property rights that may result from research and development that has not yet resulted in a product or service. No reason exists for the presumption in these circumstances, just as none exists in the circumstances already covered by section 2 of the bill as introduced. The presumption can nonetheless work its harm in these types of situations as well, especially the development of technology through R&D and the dissemination of technology through licensing.

We therefore suggest that section 2 of the bill be revised to read as follows:

> In any action in which the conduct of an owner, licensor, licensee, or other holder of an intellectual property right is alleged to be in violation of the antitrust laws, such right shall not be presumed to define a market, to establish market power (including economic power and product uniqueness or distinctiveness), or to establish monopoly power.

In conclusion, the American Bar Association recommends that Congress eliminate this unwarranted and harmful presumption by enacting H.R. 2674, with the suggested modification.

Mr. HYDE. Thank you, Mr. Kirk.

Mr. Evans.

## STATEMENT OF LARRY W. EVANS, ESQ., INTELLECTUAL PROPERTY AND LICENSING CONSULTANT, ON BEHALF OF THE LICENSING EXECUTIVES SOCIETY

Mr. EVANS. Thank you, Mr. Chairman.

Mr. Chairman and members of the Committee on the Judiciary, I'm very pleased to have been invited to testify on behalf of the Licensing Executives Society, U.S.A. & Canada, in support of House

Rule 2674. The Licensing Executives Society, better known as LES, is a member society of LES International, an international federation of national and regional societies with more than 8,000 members from approximately 66 countries throughout the world. The U.S. & Canada Society has about 4,000 members, consisting of corporate executives, entrepreneurs, venture capitalists, patent attorneys, university technology managers, and consultants, all of whom are engaged in the licensing of intellectual property.

I have personally been actively involved in the law and business of licensing of intellectual property for more than 30 years, as chief patent counsel and vice president of a Fortune 50 company, and have actively participated in LES for about 28 years, as president of the U.S. & Canada Society in 1986 and of LES International in 1993. It's estimated that LES members are involved in at least 80 percent of all licensing transactions, representing one or both sides of the transaction.

The business of licensing and the establishment of technology-based strategic alliances is very important to the U.S. economy and its balance of payments with the rest of the world. The United States has had an effective intellectual property protection system for more than 200 years. Our tradition of private ownership of intellectual property and the protection of investments in technology development has been unequalled in the world. The exploitation of intellectual property through licensing is an essential factor in ensuring that funds will be available for continued investment. It is difficult, if not impossible, to optimize return on technology investment without licensing. Return on technology investment is stimulated through a company's own commercial use and through licensing or technology-based joint ventures.

Very frequently, valuable technology is developed not by large corporations, but, instead, by individuals or small technology-oriented joint ventures. Often the only return these entities can receive from their valuable technology is through licensing—that is, exclusive licenses or assignments to corporations. These transactions are carefully reviewed by the larger corporations, and if the lawyers in those corporations, or their outside counsel, believe the proposed transactions present antitrust risks, the transactions never occur.

I was asked to think of war stories in which this law, this formalistic presumption, has inhibited licensing, but it's very difficult to relate war stories concerning transactions which have never occurred. The war stories that could be related are those that many other of the panel members and the preceding panel have discussed concerning unfortunate lawsuits, one way or the other. And this; i.e., litigation, an area that we do not want to enter. Corporations who are acquiring technology, particularly from individuals or small companies, are risk-averse. They're interested in avoiding risk. They're interested in certainty—legal certainty—and that certainty is not present when we have a fictitious presumption such as this.

So, on behalf of the Licensing Executives Society and for the reasons I've just reviewed, and for all of the reasons outlined in our written remarks, we wholeheartedly support this bill. Thank you.

[The prepared statement of Mr. Evans follows:]

PREPARED STATEMENT OF LARRY W. EVANS, ESQ., INTELLECTUAL PROPERTY AND LICENSING CONSULTANT, ON BEHALF OF THE LICENSING EXECUTIVES SOCIETY

Mr. Chairman, members of the Judiciary Committee, I am pleased to appear on this distinguished panel to testify in favor of H.R. 2647 on behalf of the Licensing Executives Society (U.S.A. & Canada), Inc. ("LES").

ABOUT LES

The Licensing Executives Society (U.S.A. & Canada), Inc. ("LES") is a non-profit professional organization whose purposes include: encouraging high standards and ethics among persons engaged in domestic and international licensing and transfers of technology and intellectual property rights, and assisting its members in improving their skills and techniques in the above fields. LES currently has over 4,000 members in the U.S. and Canada, all engaged in one way or another with technology transfer and licensing. LES's membership consists of company executives, entrepreneurs, venture capitalists, accountants, patent attorneys, general practice attorneys, government representatives, university personnel, and consultants.

LES is a member organization of The Licensing Executives Society International ("LESI"). LESI consists of 25 national or regional societies with members from approximately 66 countries throughout the world. Membership in LESI exceeds 8,000 licensing professionals.

THE PROBLEM

Under United States antitrust law, a plaintiff is often required to show that the antitrust defendant possesses market power in a relevant market. *See, e.g., Jefferson Parish Hosp. Dist. No. 2* v. *Hyde*, 466 U.S. 2 (1984). More often than not, the decision whether market power exists rests on the definition of the relevant market for antitrust purposes. *Eastman Kodak Co.* v. *Image Technical Services, Inc.*, 504 U.S. 451, 469 n.15 (1992); Pitofsky, "New Definitions of Relevant Market and the Assault on Antitrust," 90 Colum. L. Rev. 1805, 1806–13 (1990).

The Supreme Court has expressed its preference, again and again, for conducting this market analysis on a case-by-case basis. *Kodak, 451 U. S. at 467; Maple Flooring Mfrs. Assn.* v. *United States,* 268 U.S. 563, 579 (1925). Thus, traditional antitrust analysis holds that "[l]egal presumptions that rest on formalistic distinctions rather than actual market realities are generally disfavored in antitrust law." *Kodak*, 451 U.S. at 466–67.]

Despite this clearly expressed preference against presumptions, the Court has seemingly clung to the presumption that "power gained through some natural and legal advantage such as a patent, copyright, or business acumen" can create a presumption of market power. Id. at 479–80 n.29. The Court's reluctance may stem more from the fact that it has not been faced squarely with the issue for many years. Nonetheless, the Court's statements in *International Salt Co.* v. *United States*, 332 U.S. 392, 396 (1947) and *United States* v. *Loew's, Inc.*, 371 U.S. 38, 45 n.4, 46 (1962), and the numerous earlier cases they rely on, remain in effect. Thus, as the law exists today, "[t]he requisite economic power is presumed [in an antitrust case] when the tying product is patented or copyrighted." *Loew's*, 371 U.S. at 45. *See also United States* v. *Paramount Pictures, Inc.*, 334 U.S. 131 (1948); *Motion Picture Patents, Inc.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (1917).

H.R. 2674

H.R. 2674's laudable goal is to remove both the presumption of market power from ownership or control of intellectual property rights, and to ward off the possibility that a similar presumption might appear as to the definition of a relevant market. LES supports H.R. 2674 for a number of reasons.

First, as a practical matter, H.R. 2674 codifies existing practice at every level other than the Supreme Court. Although still the law of the land, the presumption of market power has been largely discredited. In recent years, this rule has been ignored or evaded by the courts of appeals. For example, the Federal Circuit Court of Appeals stated in 1991:

> A patent does not of itself establish a presumption of market power in the antitrust sense. . . . The commercial advantage gained by new technology and its statutory protection by patent do not convert the possessor thereof into a prohibited monopolist. . . . [Rather, d]etermination of whether the patentee meets the Sherman Act elements of monopolization or attempt to monopolize is governed by the rules of application of the antitrust laws to market participants, with due consideration to the exclusivity that inheres in the patent grant.

*Abbott Laboratories* v. *Brennan,* 952 F.2d 1346, 1354–55 (Fed. Cir. 1991). In reaching this conclusion, the Federal Circuit, like many other circuit courts that have used similar analyses, elected to rely on Justice O'Connor's concurring opinion in Jefferson Parish, 466 U.S. at 37 n.7, which argues that the existence of an intellectual property right does not automatically confer market power.

Commentators have also agreed with Justice O'Connor's conclusion. Pitofsky, *supra*; W. Montgomery, *The Presumption of Economic Power for Patented and Copyrighted Products in Tying Arrangements,* 85 Colum. L. Rev. 1140, 1150–51 (1985). More recently, the Justice Department and Federal Trade Commission officially adopted a position consistent with H.R. 2674 as well. The "Antitrust Guidelines for the Licensing of Intellectual Property," issued April 6, 1995, state that these agencies "will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner." ¶2.2. By codifying these appellate court and enforcement positions, H.R. 2674 will remove much uncertainty about intellectual property rights and market power.

LES also strongly supports the inclusion in this bill of the language extending its provisions to "licensor[s], licensee[s], or other holders of intellectual property." Sec. 2. This will avoid any confusion that conveyances of all or part of an intellectual property right cannot be used to assert a presumption of either market power or relevant market definition. This is especially important with respect to the relevant market definition, because many intellectual property licenses include field-of-use and/or geographic limitations on the rights granted. By including licensors and licensees, LES believes problems will be avoided in markets that are defined as less than the entire United States, and in cases where intellectual property owners choose to license rights based on end uses of the intellectual property right.

LES also believes that H.R. 2674 is good economic and judicial policy. As Justice O'Connor and the commentators who have raised this issue have noted, the lingering presumption is simply not justified in today's world. A patented or copyrighted product will almost always face competition from non-infringing substitutes. Courts are well qualified to consider whether those non-infringing substitutes are sufficiently similar or competitive to create cross-elasticity of demand, and thus diminish the likelihood that the patent or copyright holder has market power. Numerous patented and copyrighted products do not provide the power to raise prices or otherwise allow anti competitive behavior. As a result, prolonging the presumption jeopardizes legitimate business activities.

LES, as the world's premier licensing membership organization, believes that H.R. 2674 will add desirable predictability to the licensing process by allowing licensing parties to weigh the antitrust risks based on reasoned economic and legal analysis, rather than formalistic presumptions. Licensing professionals welcome this proposal as legislation long overdue. I would be pleased to answer any questions the Committee may have.

Mr. HYDE. Thank you, Mr. Evans.

Mr. Lipsky.

## STATEMENT OF ABBOTT B. LIPSKY, JR., SENIOR COMPETITION COUNSEL, COCA-COLA CO., ON BEHALF OF INTELLECTUAL PROPERTY OWNERS

Mr. LIPSKY. Thank you very much, Mr. Chairman. I'll try to be extremely brief in light of my role as the last obstacle between you and your next appointment.

Mr. HYDE. Well, like the wedding feast at Cana, we often save the best for last.

Mr. LIPSKY. I appreciate that remark; thank you, Mr. Chairman, and members of the committee.

I'm here on behalf of the Intellectual Property Owners, a group of universities and private companies, large and small, that are owners of patents, copyrights, trademarks, and other forms of intellectual property, and I thank you very much for the opportunity to testify on behalf of IPO.

Let me summarize by way of, in effect, responding to some of the remarks made by Deputy Assistant Attorney General Klein. A lot of the arguments in support of the bill, I think, are summarized

well in the arguments and testimony of other counsel, and also in previous hearing records—for example, on H.R. 469, which I was reviewing in preparation for this hearing. But I heard Mr. Klein's—I'm not sure I could characterize it as opposition to the bill, but questions regarding the bill—stated in terms of whether there is a substantial and compelling justification for congressional action. I'd like to suggest to you that I think there is.

The first point that I think Mr. Klein was focusing on is the proposition that, in effect, *Data General* v. *Digidyne* is, in a sense, not the law. He declined to state that explicitly, but—clearly—he was trying to minimize in his testimony the distance between the law as it currently stands on the existing precedent and the law that would be adopted if this bill were adopted, suggesting that the distance is quite small. Let me note that if I understand his testimony correctly, in his footnote 12 he cites the decisions of 5 of the 12 Federal circuit courts—Federal courts of appeals—one of which is the Federal circuit. One of them, however, is the second circuit decision in *SCM* v. *Xerox*, which predates *Jefferson Parish* v. *Hyde*, which, of course, is the decision that in many respects causes all the trouble by appearing to reaffirm Lowe's.

So, if I were counseling somebody on whether to bundle products, counseling somebody that I thought I could prove on the facts did not have monopoly power or market power even though he held intellectual property, what I would have to advise that client is that there is favorable precedent in four circuits—arguably five; there is unfavorable—clearly unfavorable—precedent in one circuit—that would be the ninth; and, there is a 1984 decision of the U.S. Supreme Court saying, or at least strongly suggesting, that this presumption is still valid.

Now I want to emphasize a point that is made in my written testimony, and why should we change the law unless there is a substantial deviation from the antitrust standards that ought to apply? I think the reason is he failed to focus on the uniquely comprehensive and substantial antitrust procedures and remedies that are available. This is the only field of law in which everybody is a potential plaintiff. We have not one, but two, Federal enforcement agencies. State attorneys general can sue on behalf of the citizens of the State through the parens patriae mechanism and class action procedures; we have joint and several liability; we have inferential rules of proof for damages and virtually every other element of an antitrust violation.

So, you have this effect that if there is any question of antitrust liability, that is immediately translated into a very rigid avoidance of the questionable conduct by the firms that are in question. So, there is a substantial effect because of the strength of the antitrust remedies, and what we're toying with here is the capability of the economy to foster innovation and technical progress, which is essentially the fundamental engine of economic growth. So, on that precise point of Mr. Klein's testimony, I think the intellectual property owners would be compelled to disagree. I think I'll just leave it there. Thank you.

[The prepared statement of Mr. Lipsky follows:]

## Prepared Statement of Abbott B. Lipsky, Jr., Senior Competition Counsel, Coca-Cola Co., on Behalf of Intellectual Property Owners

Mr. Chairman and Members of the Committee, this testimony is provided on behalf of Intellectual Property Owners ("IPO"). IPO is grateful to the Chairman and to this Committee for affording it the opportunity to testify today in support of H.R. 2674. IPO is a trade association that represents large and small companies, universities and individuals who own patents, trademarks, copyrights and trade secrets. In 1995 IPO members received about 30% of the patents granted to U.S. nationals by the U.S. Patent and Trademark Office. My employer, The Coca-Cola Company, is a member of IPO and is represented on its Board of Directors. I am the Senior Competition Counsel for The Coca-Cola Company. responsible for compliance and all other issues relating to antitrust and competition laws and regulations wherever the Company does business throughout the world.

IPO supports legislation that would require the courts to analyze antitrust claims involving intellectual property in the context of the facts, rather than by relying on presumptions that may or may not be valid in specific cases. IPO supports H.R. 2674. Indeed. IPO would suggest that the Committee consider additional strengthening of this legislation. as outlined below.

### ANTITRUST RULES GOVERNING TECHNOLOGY MUST BE ECONOMICALLY RATIONAL TO PROMOTE ECONOMIC GROWTH

Although the fact is rarely appreciated, antitrust rules—including both the antitrust statutes and the various judicial and administrative interpretations developed through the application of those statutes—are like the genetic code for our private-sector economy. They control industry and company structure and growth. Congress has provided a powerful arsenal of antitrust enforcement weapons, many of which are also used at the State level. Sherman Act violations are felonies subject to heavy fines and actual incarceration for guilty individuals. Any person whose business or property is injured by an antitrust violation is entitled to automatic treble damages and payment of attorneys' fees by the losing party. Any party threatened with injury from an antitrust violation can obtain a federal injunction against potential offenders. We have not one, but two federal agencies devoted to enforcing the antitrust laws. When combined with the many powerful antitrust litigation tools available in American courts—class-action procedures, *parens patriae* actions by the States, reliance on circumstantial proof, joint and several liability—it becomes self-evident why well-counseled businesses adhere strictly to antitrust standards. The potential penalties that can result from violating antitrust rules are simply too overwhelming. The largest corporate downsizing in history—the breakup of the former Bell System—was an antitrust remedy.

For these reasons, any weakness in our antitrust rules is immediately translated into a weakness in our private-sector economy by businesses eager to comply with those rules. Where the rules are vague, business conduct will not venture near the fuzzy boundaries of illegality. Where the law is too restrictive, efficient business conduct will be deterred. The effects of irrational rules are particularly devastating where the use and transfer of technology are concerned. Long-run economic growth depends heavily on improvements in technology and the efficient dissemination and use of those improvements. The creation, transfer and use of technology require expensive long-term commitments, creating substantial scope for opportunistic use of the legal system. For all these reasons, even a minor distortion in the antitrust rules applied to technology acts like a bad gene in the economic organism: such a rule can have a substantial adverse long-run impact on economic growth and our overall standard of living. H.R. 2674 deserves Congress' full attention and prompt enactment precisely because it is aimed at correcting such a defect in our antitrust rules.

### II. PRECEDENT AND GUIDELINES ARE UNCLEAR AND INCONSISTENT

Historically, courts presumed that a defendant had monopoly power if it held an intellectual property right. There has been a recent trend away from the use of this presumption and towards factual analysis of monopoly power. This analysis usually recognizes that an intellectual property right is only one of many relevant factors and does not necessarily or even usually confer market power on the owner. The recent trend also recognizes that the issue of market power can be addressed in cases involving intellectual property in the same manner as in other antitrust cases of comparable scope and complexity.

Unfortunately the Supreme Court's position on this issue is unclear. After the presumption of market power was adopted in *United States* v. *Loew's Inc.*, 371 U. S.

38, 4547 (1962), it has not been clearly endorsed by the Court. In *Jefferson Parish Hospital District No. 2* v. *Hyde*, 466 U.S. 2, 16 (1984), the majority cited *Loew's* and appeared to reaffirm the presumption in *dicta*. A four justice concurrence authored by Justice O'Connor, however, observed that a patent or copyright alone would not demonstrate market power. *Id.* at 37 n.7 ("A common misconception has been that a patent or copyright . . . suffices to demonstrate market power."). A year later Justices Blackmun and White dissented to denial of *certiorari in Digidyne Corp.* v. *Data General Corp.*, 734 F.2d 1336 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985). They urged the Court to address the issue of "what effect should be given to the existence of a copyright or other legal monopoly in determining market power." 473 U.S. at 909.

Absent clear guidance, some lower courts appear to have followed the *Jefferson Parish* concurrence, apparently ignoring the majority opinion. *See, e.g., A.I. Root Co.* v. *Computer/Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986), *Will* v. *Comprehensive Accounting Corp.*, 776 F.2d 665, 671 (7th Cir. 1985), *cert. denied*, 475 U.S. 1129 (1986). Other courts have applied the presumption of market power. *Digidyne Corp.* v. *Data General Corp.*, 734 F.2d 1336, 1341–1342 (9th Cir. 1984), *cert. denied*, 473 U.S. 908 (1985). Still other courts fail to explain what kind of presumption, if any, they are using.

In 1995 the Department of Justice and the Federal Trade Commission published Antitrust Guidelines for the Licensing of Intellectual Property, stating that in enforcing the antitrust laws the agencies "will not presume that a patent, copyright, or trade secret confers market power upon its owners." *Antitrust Guidelines for the Licensing of Intellectual Property*—1995 ("Guidelines"), reprinted in Trade Regulation Reports (CCH) ¶13,132 at 20,135 (1995). In rejecting the presumption, the agencies observed, "Although the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process or work to prevent the exercise of market power." *Id.* (*quoting United States* v. *Grinnell Corp.*, 384 U.S. 563, 571 (1966)).

This statement by the enforcement agencies is helpful and perhaps even influential, but it does not bind any court. Thus, despite the agencies' welcome efforts, the existing confusion among lower courts in light of the Supreme Court precedent may nevertheless deter parties from entering into beneficial marketing or licensing arrangements or unnecessarily penalize them for having developed patentable inventions. Until the presumption is abolished, parties may reasonably fear that it will preclude them from defending efficient and productive commercial arrangements, even in the absence of market power.

### INTELLECTUAL PROPERTY RIGHTS DO NOT NECESSARILY CONFER MARKET POWER

The recent trend away from the market-power presumption reflects the sound view that an intellectual property right does not necessarily confer market power. For example, when there are close substitutes for a patented product, no presumption of market power is warranted. *See A.I. Root Co.* v. *Computer Dynamics, Inc.*, 806 F.2d 673, 676 (6th Cir. 1986), *Guidelines, supra*, at 20,135. Similarly, the absence of significant entry barriers undermines any finding of market power. *See Allen-Myland* v. *International Business Machines Corp.*, 33 F.3d 194, 209 (3rd Cir.), *cert. denied*, 115 S. Ct. 684 (1994).

In an era of global economic integration it is now common for businesses competing in the U.S. to confront new products and technologies from around the world. A presumption that firms competing in the U.S. possess market power simply because they own intellectual property is especially unfounded as international trade barriers are removed.

### IV. FACTUAL ANALYSIS SHOULD DETERMINE MARKET POWER

One of the most important and beneficial legal developments in recent years is the increasing insistence by the Supreme Court that antitrust enforcement follow economically rational, objective standards for establishing that specific forms of business conduct injure the competitive process. This trend began with the decision in *Continental T.V., Inc.* v. *GTE Sylvania Inc.*, 433 U.S. 36 (1977), and has been continued most recently in such decisions as *Brooke Group* v. *Brown & Williamson Tobacco Co.*, 509 U.S. 209 (1993), *Spectrum Sports* v. *McQuillan*, 506 U.S. 447 (1993), and *Matsushita Electric Industrial Corp.* v. *Zenith Radio Corp.*, 475 U.S. 574 (1986) . This trend has contributed immeasurably to the long term health of the American economy by enhancing the predictability and rationality of our antitrust rules.

A noteworthy feature shared by these leading cases is the Court's refusal to be bound by economic theories offered by experts retained for purposes of the adversary process, particularly where such theories appear speculative, unsupported, or inconsistent with Objective market realities. In *Eastman Kodak Co.* v. *Image Technical Services, Inc.*, 504 U.S. 451 (1992), the Court required market power to be evaluated by reference to the factual realities of specific cases, rather than by legal presumptions based on economic theory in the absence of well-developed evidence. For the same reasons as those underlying *Image Technical Services*, courts should evaluate market power in cases involving intellectual property rights by examining the same factors considered in other antitrust cases: demand substitution, actual and potential sources of additional supply, product characteristics, the characteristics of market transactions and the information available to buyers and sellers, number and size distribution of other sellers and buyers, and other relevant factors. Analysis of these factors will provide rational guidance on the issue of market power.

The use of economically rational analysis in antitrust cases is sometimes met with the objection that it will be complex and difficult to apply in practice. If simplicity and ease of application were the only criteria for antitrust rules, Congress could decree that defendants are guilty on Mondays, Wednesdays and Fridays and innocent on Tuesdays and Thursdays. This would be a very simple rule easily applied. It would also be completely irrational and highly destructive to our economy; so is the presumption of monopoly power based on intellectual property rights. This rule should be abandoned, in line with the recent Supreme Court trend toward objective competitive analysis and economic rationality in the formulation of substantive antitrust rules.

V. POSSIBLE STRENGTHENING REVISIONS TO H.R. 2674

The thrust of H.R. 2674 is consistent with recent scholarship and the trend of the better reasoned decisions. Section 2 of the bill prohibits use of the presumption in any action involving conduct "in connection with the marketing or distribution of a product or service protected by [an intellectual property] right . . . ." There may be some possibility that this language would not be applied in certain situations where use of the presumption would be unwarranted. For example, it might be argued that the protections of Section 2 do not apply to conditioning of an intellectual property license on the provision of a separate product or service that is not "protected by" an intellectual property right. Indeed, the presumption of market power evolved from cases like *Loew's* involving tying allegations of this nature.

In 1988 Congress amended 35 U.S.C. § 271(d)(5) to provide that market power must be shown to exist "in view of all the circumstances" before patent tying may be regarded as misuse, thus permitting denial of patent enforcement remedies where otherwise required by equitable principles. Since that amendment at least one court has nevertheless employed the market power presumption in the antitrust context to practices covered by § 271(d), perpetuating an antitrust rule that largely nullifies Congressional action with regard to misuse. *Grid System Corp.* v. *Texas Instrument, Inc.*, 771 F.Supp. 1033 (N.D. Cal. 1991). The Committee should consider possible strengthening amendments to assure that this does not happen to H.R. 2674. It should be made clear that in no circumstances is it permissible to presume that an intellectual property right confers market power, economic power, product uniqueness or distinctiveness.

IPO again thanks the Chairman and the Committee for the opportunity to testify in support of H.R. 2674.

Mr. HYDE. Thank you very much, Mr. Lipsky, and I think all of you are to be commended for your very important testimony.

We'll go to questions now, and the gentlelady from California will be first.

Ms. LOFGREN. Thank you, Mr. Chairman.

I'm interested, especially, in Mr. Frank and Mr. Handschuh's reaction to the testimony of the Antitrust Division. Basically—I don't want to summarize it incorrectly—they think that the rule of law embodied in the bill is correct. They also believe that it is already the rule of law in most of the country, and in the ninth circuit where it isn't the law, we're moving in that direction. So, I guess the question to you, Mr. Frank, is if this is where the law is and is moving to, how does this bill benefit you?

Mr. FRANK. You're saying that the law is changing?

Ms. LOFGREN. Well, that's what the Antitrust Division tends to believe.

Mr. FRANK. Well, I believe that my testimony begs to differ with that conclusion raised by the Antitrust Division. As far as I know, in the *Hewlett-Packard* v. *Datagate* case, there is implicit or tacit understanding that Hewlett-Packard has economic power in a software service in order to force hardware support in the decision by the ninth circuit that just occurred a couple of years ago. There has been in dictum in a case in the eleventh circuit. In the *Kodak* case; Justice Stevens recited dictum in favor of the presumption. And the case that Mr. Klein made reference to—the *Mozart* case—was a trademark case. Trademarks have nothing to do with intellectual property. Intellectual property involves copyrights, patents, and trade secrets that protect their product, and, obviously, a trademark is not protecting your product and is not an intellectual property in that sense. Those are some of my reasons.

Ms. LOFGREN. Mr. Handschuh, perhaps you disagree with the Antitrust Division. I'm not saying that they're correct or incorrect, but the testimony we got basically was that the *Digidyne* case is not really good law anymore and that we're evolving away from it. The testimony really was an argument for the evolution of the law through the common law rather than legislatively codifying the rule. If that is correct—and if it isn't I'd like to hear your comment on it—what value does declining to codify "what is the rule of law" have in your judgment as compared to letting it just evolve through case law as the Justice Department recommends?

Mr. HANDSCHUH. Sure, Ms. Lofgren. Let me say a couple of things. One, I think if the law were simply a question—there is an absolute irrebuttable presumption that every patent and copyright confers market power for antitrust purposes—I think I'd be joining the rest of this panel in saying that the law is wrong. I think the law has never been that. The law has always been that the presumption is a rebuttable presumption and its application turns very much on the facts and circumstances of each particular case. I think, in that respect, the *Digidyne* decision is a misunderstood decision because the *Digidyne* court very clearly said that the presumption which attaches after the plaintiff has laid out the facts and circumstances, which says that the intellectual property rights play a compelling role in this case and there is a presumption at play, the defendant is then given an opportunity to rebut that presumption.

So, I think, in part, that a "strawman" has been set up to justify this bill. I don't think the law is really what people say it is. The danger of this particular bill, I think, is that it sends a wrong message to the courts as to the very significant role that intellectual property rights play in the high-tech industry. Companies are not out expending millions upon millions of dollars to acquire these rights so that they can simply hang plaques on the wall. They play a very, very significant role in competition and being able to foreclose competitors, and when they do that foreclosure in an improper fashion they ought to be held accountable for the misuse of what are Government-granted rights. And that's really the thrust

of what our argument here is today. I hope that answers the question.

Ms. LOFGREN. Maybe, I guess, Mr. Lipsky, you really did address this, if I'm hearing you correctly, that you just disagree with the Antitrust Division's testimony as to where the rule of law is in the country and how fast or whether it's moving in the direction indicated?

Mr. LIPSKY. Well, let me suggest two things. First, this is an area where the courts have been playing a kind of extended game of "telephone": you know, the children's game where they sit in a circle and one child whispers to the next, "A," and it comes back "Z."

Ms. LOFGREN. Right.

Mr. LIPSKY. There are cases going all the way back to the *Motion Picture Patents* case and you will find that in the misuse area and in antitrust treatment of intellectual property—it is so complex, it is so challenging—and common presumptions about the correct analysis have shifted so much over the years that things that start as perfectly innocent mistakes, as in *Loew's*—being from Atlanta I'm not going to argue with the proposition that the movie "Gone With the Wind" is unique—but I will argue strenuously with the assertion that is supported on the basis of *Loew's* that that justifies the presumption that any motion picture has market power or monopoly power—it's simply wrong.

And, yet, now you have this huge doctrinal debate, and this is simply one example of a pattern that has occurred again and again. The examples that come to mind are, for example, the possible antitrust restrictions on differential royalties from the shrimp-peelers' cases, all the rules regarding misuse. What I was going to suggest is, this complex evolution is traced beautifully in a law review article. It appeared in the "Antitrust Law Journal" and was written by Robert Taylor, who, as you know, is a former chair of the American Bar Association Section on Antitrust Law. This antitrust intellectual property interface is his field and he has testified, I think, on H.R. 469 in the last Congress and on other incarnations of this proposal. And you can trace out how the courts take years to adopt misconceptions, try to correct them, and you just end up with a very complicated set of rules that becomes intractable when you put it under that very bright glare of these extremely punitive antitrust procedures and remedies.

Ms. LOFGREN. As you probably know, I was not a Member of the 103d Congress or any prior Congress so I didn't have the benefit of the testimony; if you have a spare copy of the law review article, I'd be interested to read it.

Mr. LIPSKY. I have it with me; I'd love to let you copy it.

Ms. LOFGREN. Thank you, Mr. Chairman.

Mr. HYDE. Thank you.

The gentleman from North Carolina, Mr. Coble.

Mr. COBLE. Thank you, Mr. Chairman, and gentlemen, it's good to have you all with us.

Mr. Handschuh, one of your arguments appears to be that the presumption helps to equalize the expense of litigation between large and small companies. Now granted, the litigating of a market power case is expensive, and when I say that I'm excelling in an

understatement. But, is it not—and this may not be grammatically precise, Mr. Chairman—but is it not more or less equally expensive, Mr. Handschuh, for both parties, regardless of which party has the burden?

Mr. HANDSCHUH. Yes, but I think you have to understand the background that we bring to this. That when we look at a tying situation from our perspective—and others may disagree with that from an antitrust philosophy point-of- view—tying is an inherently suspect activity. When the vehicle for imposing the tie is a Government-granted monopoly, be it a patent or a copyright, then we think that places a burden on the defendant to demonstrate, given the other facts and circumstances of the case, because it is in the best position to know what its market power is to rebut the presumption, et cetera. We think that properly places an equitable burden on the defendant to demonstrate why it is not misusing the Government-granted monopoly via the patent or the copyright that it's been given, and it is in the best position to do that and I think that's the whole nature of the suggestion of economies in that case.

Mr. COBLE. Does anyone else want to be heard on that at this juncture? Yes, Mr. Frank.

Mr. FRANK. Yes, Mr. Congressman. You know, I just think the presumption is wrong because it's theoretical. I mean, I don't understand what "theory" has to do with the antitrust laws. Why were the antitrust laws were generated from the very beginning? It had to do with monopolies—actual monopolies, real monopolies—not theoretical monopolies. I just think it's wrong-placed.

Mr. COBLE. Some of the proponents of the bill before us have suggested that the presumption encourages free-riding by emulator companies. Now, I'd be happy to hear from any of you all as to, "A," if this is in fact true, and "B," if it is, would the bill before us help to alleviate that problem? Anyone who wants to weigh-in on this is welcome to do so.

Mr. HANDSCHUH. I'll volunteer here, Mr. Coble, because we are, among other things, a compatible equipment manufacturer. And by that, in 1970, when Gene Amdahl decided to start designing bigger and better mainframe computer systems, he decided to build those machines that would run where the substantial investment of user applications had been written and that was to operate in an IBM environment. So, our machines are designed to execute the same instruction set that an IBM computer does so that application programs written to run on an IBM machine will run on an Amdahl computer.

There's no free-riding here; on our last mainframe the company spent well in excess of $500 million in research and development expenses in developing that computer. The engineering of our machines is completely different, and IBM is certainly not deprived of any software revenues because of that because it continues to license its operating system software to the users of Amdahl computers, Hitachi computers, or its own computers and collects full royalties for those. So, to me, the free-riding argument is an absolutely spurious argument in these cases.

Mr. COBLE. Anybody else on the panel? Mr. Frank.

Mr. FRANK. Mr. Congressman, it seems to me that that particular situation really has nothing to do with this presumption legisla-

tion. I mean, here you're talking about IBM who clearly has—at least in Gene Amdahl's days—clearly had economic power which was more than the 30 percent suggested in the *Jefferson Parish* v. *Hyde* case. So, I think that kind of example, with all due respect, is ill-placed as far as the presumption is concerned in this particular case because we're not talking about where parties have real monopolies. We're just talking here about the presumption in theoretical monopolies.

Mr. COBLE. Our chairman sees red when that light illuminates, and I will withdraw, Mr. Chairman.

Mr. HYDE. Does the gentleman want additional time?

Mr. COBLE. No, that's fine. Thank you, Mr. Chairman. Thank you, gentlemen.

Mr. HYDE. Thank you, Mr. Coble.

The gentleman from Georgia, Mr. Barr.

Mr. BARR Thank you, Mr. Chairman. Mr. Chairman, I don't have any questions for the panel; I have read the written materials and listened to the comments. I found Mr. Lipsky's statement and comments particularly revealing. Of course, it has nothing to do with the fine company from the fine State of Georgia that he represents; I'm sure that's just coincidence. Thank you, Mr. Chairman.

Mr. COBLE. Mr. Chairman——

Mr. HYDE. The gentleman from North Carolina.

Mr. COBLE [continuing]. Could I have one more question since the gentleman from Georgia didn't use all of his time?

Mr. HYDE. You surely may.

Mr. COBLE. Gentlemen, you all have been in the trenches. Do any of you know of instances in which the uncertainty, or the purported uncertainty of the law we are discussing, has led to specific real-life problems or has undermined specific transactions? If so, Mr. Chairman, I'd like to hear briefly about that if you could share it with us.

Mr. EVANS. Congressman, in my oral testimony, and also in our written remarks, we cited that these sorts of war stories, i.e. examples of the negative impact of the presumption, usually do not see the light of day because the negative impact is realized in the board room or in the conference room of a company who is considering whether or not to acquire an exclusive license from a small technology company or from an inventor.

When I was involved at Standard Oil during the so-called fuel crisis, we had many, many suggestions from the outside—unsolicited—some of which were very good. Always there are two sides in a corporation: there's the side that wants to acquire technology and move ahead, and the side that would rather not the rock boat, that would rather stay very stable because then they would make no mistakes and realize a good retirement. The side that was conservative, that was against progress, always had the argument that we have antitrust problems; Sohio had a 28-percent market share in Ohio; or we have some strong market share in a certain area. If you acquire an exclusive license, which is something that immediately presents some antitrust concerns, and add to that this formalistic presumption, a project may be killed before it even has a chance to live.

Mr. LIPSKY. Could I reinforce those remarks? Part of my point in laying out the configuration of the law in the different circuits is, ultimately, responsible business people are very eager to comply with the antitrust laws so that they don't suffer these horrendous penalties and so that they're not subject to opportunistic treble damage litigation by their business partners. Ultimately, they're going to come to an attorney and ask for an opinion, which will depend on whether a claim is likely to succeed and which will depend on the ability of the plaintiff ultimately to prove market power.

And what I was suggesting is that any attorney who looks at this configuration of decisions with *Jefferson Parish* still on the books, and advises that there is no problem with an arrangement that contains any risk of treble damage liability in litigation with a licensee, for example, that is malpractice in my view as a career-long antitrust lawyer; I think it is not responsible to so advise.

And if I could just make one last point. If the question is whether the *Jefferson Parish* ruling is dead but unburied—in a sense a piece of debris in the law that can be ignored—take a look at Judge Easterbrook's opinion in the AA Poultry case in the seventh circuit about 5 years ago. He was looking at an antitrust precedent from way back in 1967 called *Utah Pie,* and the question was whether that still stated a valid rule for predatory pricing, and even though there is tremendous scholarship and lower court authority questioning *Utah Pie* hither and 'yon, he very comfortably held, as a judge of the seventh circuit, that it was still good law and had to be respected by the courts of appeals. Incidentally, there were two dissents to denial of certiorari in *AA Poultry*, as well, when it got to the Supreme Court.

Mr. COBLE. Thank you, gentlemen. Thank you, Mr. Chairman for the additional time.

Mr. HYDE. Well, I thank you, Mr. Coble.

Just very briefly, Mr. Handschuh. You suggest on the onehand that presumption can be rebutted, but you also suggest that if we pass any legislation it ought to follow the Synar amendment—named after our beloved former colleague whose untimely passing we still lament—but we ought to follow the Synar amendment and affirmatively state the presumption that and say that it's rebuttable. Is there any doubt, under current case law, that the presumption is rebuttable and wouldn't the Synar amendment affirmatively change the law by establishing in law the presumption?

Mr. HANDSCHUH. If your question is, is there any doubt that the presumption to the extent it's applied by the courts is rebuttable?—I don't think there is any dispute on that point. I think the suggestion here, the argument in favor of the bill, is that we're dealing with an absolutely irrebuttable presumption and, Mr. Chairman, if such were the case, I think I'd join you in support of this particular bill. I think the purpose of the Synar amendment at the time was simply to clarify the question that intellectual property rights deserves special treatment, but that any presumption that might apply in any given set of facts and circumstances was clearly a rebuttable presumption.

Mr. HYDE. You asked—where are all of these frivolous suits? Mr. Evans has pointed out many times you can't quantify things that don't happen because of the risk-averse nature of the people giving

the advice, and that's not a bad idea at all, but on the death penalty they say it's no deterrent. I don't know how you quantify murders that didn't occur because of a reasonable fear that you're going to get executed, but you did ask about other cases. And Mr. Frank testified, he said "Hewlett-Packard appears to face trial on the same rule of law in the same district court—the Northern District of California. Clearly, antitrust plaintiffs who market emulator components with little or no innovative contribution are given an unfair advantage over defendants who are penalized for investing in patented or copyrights solutions. This presumption, in my view, continues to encourage meritless suits, while not affecting meritorious litigation." Do you have a comment on that comment?

Mr. HANDSCHUH. Yes, actually, I very much disagree with the interpretation as to what's going on in that particular lawsuit. My understanding is that Hewlett-Packard has moved for summary judgment on a point involving the amount of commerce that is involved in a particular commercial transaction, and in order to prevail on the summary judgment motion has—for the sake of argument—conceded the market power issue. That is not to suggest under any set of circumstances that it is facing a determination that it has market power simply because it has an intellectual property right. This was simply a procedural issue involving a motion for summary judgment, so I don't think the case, quite honestly, stands for the proposition that has been put forth.

Mr. HYDE. You do concede, though, that having the state of law in the ninth circuit—about 40 million people—one way, and the state of law in the other circuits another way, on an important issue like this, is not the optimum situation for our economy, wouldn't you?

Mr. HANDSCHUH. Well, I don't think I would agree that there is such a fundamental split in the circuits here. I think if a circuit is standing for the proposition that there is no such thing as an irrebuttable presumption and is holding *Digidyne* up for stating the opposite, that's one thing. But I don't really believe or perceive the split in the circuits that is purported to exist here. I think the facts and circumstances of cases under which the presumption has ever come to play a role is very few and far between, and I think courts are simply reciting that we do not apply an absolute presumption, which *Digidyne* never said.

Mr. HYDE. Any other comments? Mr. Frank.

Mr. FRANK. Yes, Mr. Chairman. I'd like to make note of another suit. Data General was sued about 5 years ago by a company called Service & Training, down in Maryland in the fourth circuit, on the basis of the *Digidyne* case saying that Data General had economic power in its diagnostic software, and we went through 4 or 5 years of trial up through the fourth circuit and, you know, we just won conclusively. But in my view it was a frivolous suit and we certainly spent a lot of money, and used a lot of resources, a lot of wasteful resources, in my mind.

Mr. HYDE. Well, gentlemen, I want to again thank you. You've made a great contribution to this—I don't want to say esoteric or arcane—issue, but it is to the general public and less so to us, thanks to you. So, thank you very much. The hearing is adjourned.

[Whereupon, at 11:26 a.m., the committee adjourned.]

# APPENDIX

## Material Submitted for the Hearing


**LARRY W. EVANS**
**19 Stoneridge Drive**
**South Barrington, Illinois 60010**


**PERSONAL**

May 16, 1996

The Honorable Henry J. Hyde
Member of Congress
Chairman, Committee on the Judiciary
2138 Rayburn House Office Building
Washington, D.C. 20515-6216

RE: H.R 2674

Dear Mr. Hyde:

It was an honor and a privilege to have been invited to testify on behalf of the Licensing Executives Society at the legislative hearing on the "Intellectual Property Anti-trust Protection Act of 1995" (H.R. 2674). The purpose of this letter is to supplement my written and oral testimony in an area which arose during Representative Coble's questioning of the administration panel, i.e. how passage of the Act could benefit U.S. intellectual property owners as compared to foreign owners of U.S. intellectual property rights.

In my oral testimony, I mentioned that, very frequently, valuable technology is developed not by large corporations but, instead, by individual inventors or by small, technology-oriented ventures. Most often, the only return these entities can receive from their valuable technology is income from the grant of exclusive licenses (or assignments) to large industrial corporations who have the financial, human and commercial resources to commercialize the technology Proposed transactions such as this are reviewed by lawyers for the large corporations and, if the lawyers believe the proposed transactions present anti-trust risks (and the risk of treble damages), the transaction never occurs, i.e. it "dies" before its "birth."

It is because of the above that it is very difficult to relate "war stories" which illustrate the negative impact of the fictional presumption of market power. Only the occasional case that is tried and results in a published decision can be specifically described. Companies with financial, commercial and human resources have many options available to them; they are, however, risk-averse and will choose the option that does not involve the risk of expensive litigation and treble damages.

The Honorable Henry J. Hyde
May 16, 1996
Page 2

It is well-known that the U.S. is unique in that, in our country, many (if not most) of the significant, breakthrough inventions are made by individual inventors and small businesses These inventors can survive and prosper only if they can attract investment and participation from the large, industrial corporations who have the wherewithal to commercialize the developments. It is important that this Congress seize the opportunity now afforded to it to eliminate this formalistic (and fictional) presumption which has such a "chilling effect" on these vital and pro-competitive licensing activities, i.e. from individual and small entity technology developers/inventors in the United States to U S. corporations who have the ability to bring them to market and to thereby reward the developers

Once again, Mr. Hyde, I would like to thank you on behalf of LES for inviting me to testify and for giving me this opportunity to supplement my testimony

Respectfully,

Larry W. Evans

LWE:jls

cc: Joseph Gibson
Counsel
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ASSOCIATION OF LOCAL TELEVISION STATIONS



May 14, 1996

The Honorable Henry Hyde
Chairman
Committee on the Judiciary
United States House of Representatives
Washington, D.C.

The Honorable John Conyers
Ranking Member
Committee on the Judiciary
United States House of Representatives
Washington, D.C.

Re: H.R. 2674

Dear Mr. Chairman and Mr. Conyers:

We are writing to express our views on H.R. 2674, the "Intellectual Property Antitrust Protection Act of 1995."

The Association of Local Television Stations ("ALTV") is a non-profit, incorporated association of local television stations.[1] Local television stations have a vital interest in the laws governing the marketing and sale of intellectual property rights. ALTV's member stations buy exhibition rights to millions of dollars worth of feature films and syndicated television programming each year. In 1994, for example, the typical Fox-affiliated television station spent nearly three million

[1]ALTV formerly was the Association of Independent Television Stations ("INTV"). ALTV's membership is limited to stations not affiliated with the three established networks -- ABC, CBS, and NBC. Among ALTV's members are nearly 140 local broadcast television stations, including many stations affiliated with the Fox, UPN, and WB networks, as well as a number of independent television stations.

Association of Local Television Stations, Inc.• 1320 19th Street, N.W., Washington, D.C. 20036 • (202) 887-1970

dollars in acquiring broadcast rights to non-network programming.[2] For UPN and WB affiliates and independents, the average cost for broadcast rights in 1994 exceeded six million dollars. [3] Broadcast rights are the single greatest expense for ALTV's member stations, often accounting for 40% of their expenses.[4] The ability to acquire popular quality programming at a price set by marketplace forces, free of anticompetitive restraints, is crucial to their ability to compete and to serve the public interest.

Regrettably, H.R. 2674 is a virtual invitation to mischief in the television program distribution marketplace in the particular form of "block booking" or the tying of the sale of a desirable feature film or program to the sale of an inferior film or program. Block booking and tying agreements, while still not completely unheard of in the marketing of films and programming to local television stations, now are impeded by current law. Over 30 years ago, the Supreme Court of the United States held block booking of feature films distributed to broadcast television stations illegal under the antitrust laws. *Loew's Incorporated et al v. United States*, 371 U.S. 38 (1962). Critical to the Court's decision was its continuing acknowledgement that in antitrust cases, "The requisite economic power is presumed when the tying product is patented or copyrighted." *Id.* Plaintiff's are spared the burden of showing "the scope of the relevant market for the tying product" and "the seller's percentage share in that market." Thus, in the Loews case:

> The complaints asserted that the defendants had, in selling to television stations, conditioned the license or sale of one or more feature films upon the acceptance by the station of a package or block containing one or more unwanted or inferior films. No combination or conspiracy among the distributors was alleged; nor was any monopolization or attempt to monopolize under §2 of the Sherman Act averred. The sole claim of illegality rested on the manner in which each defendant had marketed its product. The successful pressure applied to television station customers to accept inferior films along with desirable pictures was the gravamen of the complaint.

*Id.*, 371 U.S. at 39. In affirming the district court's holding that the defendant's block booking constituted illegal tying under the antitrust laws, the Court pointed out that, "The judge recognized that there was keen competition between defendant distributors, and therefore rested his conclusion solely on the individual behavior

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[2]NAB/BCFM 1995 Television Financial Report at 123.

[3]*Id.* at 147.

[4]*Id.*

of each engaging in block booking." *Id.*, 371 U.S, at 41. Therefore, a station victimized by block booking or tying under current law need show only that such tying or block booking has taken place. As a result, an antitrust suit remains a viable remedy in cases of block booking or tying in the sale of television programming.

H.R. 2674, as a practical matter, eviscerates the antitrust remedy available to local television stations under current law and precedent. The critical presumption of market power is eliminated. Consequently, a potential antitrust claimant would face the daunting task of establishing not only the potential defendant's behavior, but also the relevant market and the defendant's economic power. These added burdens rob the antitrust remedy of its vitality.

In the case of many local television stations, the added costs of pursuing a block booking or tying case under the antitrust laws would be prohibitive. Even in the top ten markets, for example, 25 per cent of independent stations had pre-tax profits barely exceeding $100,000 in 1994.[5] In all other markets, 25 per cent of independent stations operated at a loss in 1994.[6] Consequently, the increased cost of litigation, exacerbated by the simple inability to pay the *ante*, would reduce the deterrent value of the current antitrust remedy to nothing. The shield of the antitrust laws, molded by the Supreme Court in *Loews* and its predecessor cases, would be no more. Therefore, local television stations typically would have no feasible alternative to succumbing when confronted with block booking or tying in program marketing.

Congress hardly ought open the door to block booking and tying in the distribution of television programming. The costs of these anticompetitive practices are well-known and particularly acute with respect to local television stations' service to the viewing public. First, the benefits of the copyright law are undone. As observed by the Court in *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 156-157 (1948):

> The copyright law, like the patent statutes, makes reward of the owner a secondary consideration. In Fox FilmCorp. v. Doyal, 286 U.S. 123, 127, Chief Justice Hughes spoke as follows respecting the copyright monopoly granted by Congress, "The sole interest of the United States and the primary object in conferring the monopoly lie in the general benefits derived by the public from the labors of authors." It is said that reward to the author or artist serves to induce release to the public of the products of his creative genius. But the reward does not serve its public purpose if it is not related to the quality of the copyright. Where

[5]*Id.* at 149.

[6]*Id.* at 151, 153, 155.

> a high quality film greatly desired is licensed only if an inferior one is taken, the latter borrows quality from the former and strengthens its monopoly by drawing on the other. The practice tends to equalize rather than differentiate the reward for the individual copyrights. Even where all the films included in the package are of equal quality, the requirement that all be taken if one is desired increases the market for some. Each stands not on its own footing but in whole or in part on the appeal which another film may have.

The fundamental reward process of copyright is skewed by block booking, thereby diverting rewards from deserving authors to others. A result more inimical to the function and purposes of the copyright law is difficult to imagine.

Second, competition is diminished. As also observed by the Court in *United States v. Paramount Pictures, Inc.*, 334 U.S. at 157:

> Block-booking prevents competitors from bidding for single features on their individual merits. The District Court held it illegal for that reason and for the reason that it "adds to the monopoly of a single copyrighted picture that of another copyrighted picture which must be taken and exhibited in order to secure the first." That enlargement of the monopoly of the copyright was condemned below in reliance on the principle which forbids the owner of a patent to condition its use on the purchase or use of patented or unpatented materials. See Ethyl Gasoline Corporation v. United States, 309 U.S. 436, 459; Morton Salt Co. v. Suppiger Co., 314 U.S. 488, 491; Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661, 665.

Thus, competition is diminished in the tied market, where sales are coerced rather than based on demand for the tied product standing alone in the market.

Third, the programming discretion of local television station licensees is compromised. Local television stations are licensed to operate in the public interest -- a factor which permeates the program selection and scheduling process at every local television station in this country. Local stations strive to provide programming responsive to local community needs, interests, and tastes, whether it be news, public affairs, children's, or entertainment programming. Any time a local station is coerced via block booking or tying to acquire a program it otherwise would have rejected, the cost is paid by the viewing public, which is deprived of the more attractive or desirable program the station would have broadcast in lieu of the tied program. Thus, the cost to the public welfare is real and significant.

Therefore, lowering the legal barriers to block booking and tying in the marketing and distribution of programming to local television stations readily invites a flouting of fundamental goals of competition, copyright, and communications policy.

Lastly, ALTV emphasizes that the television program distribution market remains a fertile field for block booking and tying. Each feature film or television program offered to a local television station is a unique product. Television programs, like feature films vary in quality and audience appeal. Not every situation comedy is a *Simpsons*, *Cheers*, *MASH*, or *Home Improvement*, or every hour drama a *Star Trek*, any more than every feature film is a *Gone with the Wind*. The wide disparity in popularity and the limited supply of true hit programs always will create an enormous incentive for program distributors to exploit the popularity of their hits by tying less attractive programs to them.

In sum, lowering legal barriers to anticompetitive practices in a field where enormous incentives remain to act in just such an anticompetitive manner defies common sense and sound public policy. Whatever benefits H.R. 2674 might offer in other contexts, in the market for television programming, it portends public interest costs with no corresponding public benefits. There, nothing is broken; nothing needs fixing. ALTV, therefore, opposes H.R. 2674.

We appreciate this opportunity to submit our views and hope that they will be useful to you in your deliberations on H.R. 2674. We also would be happy to provide any additional information or answer any questions you may have about our concerns with the bill.

Very truly yours,

James J. Popham
Vice President, General Counsel

cc: All members, Committee on the Judiciary

# GOETZ ASSOCIATES

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May 20, 1996

The Honorable Henry Hyde
Chairman
Committee on the Judiciary
United States House of Representatives
Washington, D.C. 20515

The Honorable John Conyers
Ranking Member
Committee on the Judiciary
United States House of Representatives
Washington, D.C. 20515

Re: H.R. 2674 ("Intellectual Property Antitrust Protection Act of 1995")

Dear Mr. Chairman and Mr. Conyers,

I am writing to express my firm opposition to H.R. 2674.

My involvement with the computer industry dates back over 40 years. I was the founder and president of Applied Data Research (ADR), the first company to license and market software products, and was with ADR from 1959 until 1988. In 1968, I received the first U. S. software patent, and have remained actively involved with the computer industry in a variety of contexts. Today, I am the president of Goetz Associates, an independent consulting firm.

I am particularly familiar with the concerns surrounding the confluence of antitrust and intellectual property in the software industry. I have studied these issues in a variety of settings, and have served as an expert witness on the effects of tying in the software industry for the Department of Justice.

My reasons for opposing H.R.2674 are simple: if enacted, this bill will reduce competition between independent software companies and hardware companies that also market operating systems and other software products. The bill will stifle

innovation by independent software companies and will damage an industry that currently ranks as the world leader. In fact, the software industry today is robust and thriving. Both large and small companies are succeeding and new technologies and innovation abound. ***There simply is no problem in the industry today that warrants this type of legislature action.***

I conclude with this letter a copy of my written statement submitted in 1990, in opposition to the virtually identical predecessor to this bill. That statement elaborates on my credentials and on the basis for my disagreement with the proposed legislation

Thank you for the opportunity to submit my views on this very important matter

Sincerely,

Martin Goetz

Martin A. Goetz
President

PREPARED STATEMENT OF MARTIN A. GOETZ, GOETZ ASSOCIATES

My name is Martin Goetz, and I have been in the computer field since 1954. Since the mid-1960s, for more than 20 years, I have been actively involved in the problems facing independent software companies caused by bundling and tie-ins by the computer hardware companies. During that time, I also was very active in the protection of intellectual property rights for software.

I urge you not to pass H.R. 469. In my opinion, the bill would impede competition and stifle innovation in the software products industry—one of the few technology industries in which the U.S. remains the clear world leader.

Before I elaborate on the reasons I believe the bill should not pass, let me give you a quick picture of my background and credentials:

I was a founder and former president of Applied Data Research (ADR) and was with that company for 28 years, until 1988.

ADR was a public independent software products company, traded on the New York Stock Exchange, with revenues of about 175 million dollars.

ADR was the first company to license and market software products. It did this five years before IBM unbundled its software from its hardware in 1970.

From 1965 to 1984 I was Senior Vice-President in charge of ADR's Software Products Division. I became President in 1984.

In 1968 I received the first U.S. software patent.

In 1969 ADR sued IBM for antitrust violations and settled out of court in 1970. The basis of the suit was IBM bundling software with their operating system.

In 1976 I testified for the U.S. government in the IBM/Justice Department suit on the effects of bundling and tie-ins during the 1960s. I also testified how IBM's continued bundling of their operating system with their hardware inhibited competition in the 1970s.

In 1978 I testified at the CONTU hearings (The National commission of New Technology Uses of Copyrighted Works) on the importance of copyright and patent protection for software.

During the last 15 years, I also have been actively involved with bundling and intellectual property issues through ADAPSO, the computer software and services trade association. I was Chairman of its Software Protection Committee and Chairman of its Competitive Practice Committee as well as an active member of both these committees. Through ADAPSO I have become aware of many bundling issues that not only faced ADR, but other software companies as well.

In 1989 I was elected to the Infomart Computer Hall of Fame along with Bill Gates of Microsoft Corporation.

I am currently the President of Goetz Associates, an independent consulting firm.

I have watched the software products industry grow and develop into one of the healthiest and dynamic in the world, and believe it is of critical importance to the health of the software products industry that the Fish-Leahy Bill not be passed by the U.S. Congress. There are several reasons.

The first reason is that the bill will have the effect of reducing competition between independent software companies and hardware companies that market operating systems and other software products. Major hardware companies, i.e., IBM and DEC continuously have used bundling and tie-ins as competitive weapons against independent software companies. Some software companies have either brought suit or contemplated bringing suite against these hardware companies. But because of the difficulty in proving market power there have been very few court confrontations. With the passage of this new bill, I believe there will be even fewer.

Let me give you a specific example where independent software companies are being hurt because of possible antitrust violations. In 1989 DEC bundled its software product (RDB) with its proprietary and copyrighted operating system product (VMS). It is my understanding that several software companies are contemplating court action against DEC. If the "Intellectual Property Antitrust Protection Act of 1989" is enacted, these companies may be even more reluctant to bring suit to enforce their rights under the antitrust statutes. Additionally, if there is a general belief that it is so difficult to use the antitrust law to prohibit illegal tie-ins, then other companies will be reluctant to develop products that are competitive to a hardware company's software products.

2. The second reason not to pass H.R. 469 is that this bill can have the effect of reducing software innovation by independent software companies. If the *Data General* decision is overturned, hardware companies may continue to use bundling and tie-ins of their proprietary operating systems with additional software products. If these hardware companies begin to tie program development software, office systems software, or other software systems to their operating system, there will be

a great reluctance for an independent software company to innovate or develop products in areas where a hardware company may choose to bundle.

3. A third and final reason not to pass H.R. 469 is that there is a great need for new and innovative software products. A recent report by the House Committee on Science, Space and Technology entitled "Bugs in the Program—Problems in Federal Government Computer Software Development and Regulation" dramatically illustrates the need for new and innovative software products. The report accuses the federal government of risking lives and wasting billions of dollars with flawed computer applications. This problem is not unique to the U.S. Government. Virtually all U.S. corporations are struggling to effectively use computers, and they also have flawed applications. There is a tremendous need for new and innovative software products to improve how both the government and corporations can more effectively build computer applications.

In closing, I would like to emphasize the importance of a viable, competitive and innovative independent software products industry to the U.S. economy, to U.S. corporations, and to the U.S. Government. To date, the independent software products industry has been responsible for most of the significant innovations and progress in software. Although hardware companies dominate in their respective proprietary operating system areas, they have achieved this dominance primarily through bundling and tie-in strategies. The hardware companies do not dominate most of the other areas of the software business. U.S. software Companies dominate the worldwide marketplace for software and they not only help the U.S. balance the trade deficit, but they also make up one of the few industries in the world where the U.S. is the clear leader.

It is, therefore, of critical importance that the U.S. government not hurt U.S. independent software companies by any actions, such as the Fish-Leahy Bill, that could reduce their viability and their ability to compete and innovate.

AMERICAN INTELLECTUAL PROPERTY LAW ASSOCIATION
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May 14, 1996

The Honorable Henry Hyde
Chairman
Committee on the Judiciary
United States House of Representatives
Washington, D.C. 20515

RECEIVED
MAY 14 1996
COMMITTEE ON THE JUDICIARY

Dear Mr. Chairman:

The American Intellectual Property Law Association (AIPLA) strongly supports passage of H.R. 2674, the Intellectual Property Antitrust Protection Act of 1995. The proposed legislation would remove the presumption appearing in some court decisions that an intellectual property right, without more, provides market power that is of a level sufficient to result in liability under the antitrust laws. Such a presumption is unwarranted because an intellectual property right, if subjected to the normal antitrust analysis used in non-intellectual property cases, rarely yields such economic power. Moreover, the presumption diminishes the value of intellectual property by increasing the risk of antitrust liability for intellectual property owners. In order to allow the marketplace to determine the real value of intellectual property, any suggestion of such an unwarranted presumption should be removed, thereby subjecting intellectual property to the same market power tests as are used in other antitrust cases. Allowing the marketplace to determine that value would help provide the full incentive to creating and disseminating new technology to make our economy more competitive.

The AIPLA is a professional association of more than 10,000 attorneys specializing in the practice of intellectual property law. One of the stated purposes for which the AIPLA was formed is to aid in the institution of improvements in the laws relating to patents, trademarks, copyrights, unfair competition and other fields of intellectual property, including the study of, and comments on, amendments to the relevant laws protecting such property rights. It is in the pursuit of this purpose that the Association has reviewed the provisions of H.R. 2674 and expresses its views on this legislation.

H.R. 2674 would apply to cases in which the owner, licensor, licensee, or other holder of a patent, copyright, or mask work right is charged with a violation of the federal antitrust laws or a similar state law in connection with the marketing or distribution of products or services protected by the intellectual property rights. The bill provides that these intellectual property rights:

> shall not be presumed to define a market, to establish market power (including economic power and product uniqueness or distinctiveness), or to establish monopoly power.

H.R. 2674, 104th Cong., 1st Sess. § 2 (1995).

Market power is the ability of a single seller to raise price above and restrict output below the competitive level.[1] Greater market power is monopoly power, which is the ability to control prices or exclude competition.[2] They are essential elements in proving various types of antitrust violations such as monopolization and attempted monopolization in violation of Sherman Act § 2,[3] and an illegal tie-in in violation of Sherman Act § 1.[4] In addition, market power also may be used to prove an illegal restraint of trade under the rule of reason in violation of Sherman Act § 1.[5] Market power is determined in relation to a relevant market, *i.e.*, a group of products or services that are reasonably interchangeable in a geographic area.[6]

The issue involved here is whether a presumption should exist that a patent, copyright, or mask work right covering a particular aspect of technology conveys the power to raise or control prices or competition in any relevant market in which the protected technology competes.

The issue arises because some courts, including the Supreme Court, indicated that a patent presumptively confers market power. In Jefferson Parish Hospital District No. 2 v. Hyde, 466 U.S. 2 (1984), the majority opinion stated:

> [I]f the Government has granted the seller a patent or similar monopoly over the product, it is fair to presume that the inability to buy the product elsewhere gives the seller market power. Any effort to enlarge the scope of the patent monopoly by using the market power it confers to restrain competition in the market for a second product will undermine competition on the merits in that second market. Thus, the sale or lease of a patented item on condition that the buyer make all his purchases of a

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[1] National Collegiate Athletic Assoc. v. Board of Regents, 468 U.S. 85, 109 n.38 (1984); Fortner Enters. Inc. v. United States Steel Corp., 394 U.S. 495, 503 (1969).

[2] United States v. E.I. Du Pont de Nemours & Co., 351 U.S. 377, 391 (1956); see Eastman Kodak Co. v. Image Technical Servs., Inc., 504 U.S. 451, 481 (1992) ("Monopoly power under § 2 requires, of course, something greater than market power under § 1").

[3] United States v. Grinnell Corp., 384 U.S. 563, 570 (1966); Spectrum Sports, Inc. v. McQuillan, 506 U.S. 447, 455 (1993).

[4] Kodak, 504 U.S. at 462; Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 13-14 (1984).

[5] United States v. Brown Univ., 5 F.3d 658, 668 (3d Cir. 1993); Wilk v. American Medical Ass'n, 895 F.2d 352, 359 (7th Cir.), cert. denied, 498 U.S. 982 (1990).

[6] Du Pont, 351 U.S. at 394-95; Kodak, 504 U.S. at 469 & n.15.

separate tied product from the patentee is unlawful.

Id. at 16 (citation omitted). In a concurring opinion, however, four Justices disagreed:

> A common misconception has been that a patent or copyright, a high market share, or a unique product that competitors are not able to offer suffices to demonstrate market power. While each of these three factors might help to give market power to a seller, it is also possible that a seller in these situations will have no market power: for example, a patent holder has no market power in any relevant sense if there are close substitutes for the patented product.

Jefferson Parish, 466 U.S. at 37 n.7 (O'Connor, J., concurring).

Appellate court decisions are not uniform as to whether a patent or copyright presumptively confers market power on its owner or licensee. Although some appellate courts have rejected a presumption of market power for patents and copyrights,[7] others have not.[8] The Federal Circuit, which decides most cases involving patents, looks to the law of the regional circuit court of appeals for precedent on antitrust issues arising in patent cases.[9] Although the Federal Circuit has indicated that it rejects a market power presumption for intellectual property in the antitrust context, it did so following the precedent from the relevant regional court of appeals that also rejected such a presumption.[10] Thus, for patent antitrust matters arising from district courts in which the regional circuit court of appeals would apply the presumption, the Federal Circuit may feel constrained to follow that approach.

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[7] SCM Corp. v. Xerox Corp., 645 F.2d 1195, 1203 (2d Cir. 1981), cert. denied, 455 U.S. 1016 (1982); A.I. Root v. Computer/Dynamics, Inc., 806 F.2d 673, 676-77 (6th Cir. 1986); Will v. Comprehensive Accounting Corp., 776 F.2d 665, 672 (7th Cir. 1985), cert. denied, 475 U.S. 1129 (1986).

[8] Town Sound and Custom Tops, Inc., v. Chrysler Motors Corp., 959 F.2d 468, 479 (3d Cir.), cert. denied, 506 U.S. 868 (1992); Duplan Corp. v. Deering Milliken, Inc., 444 F. Supp. 648, 673 (D.S.C. 1977), aff'd in part, rev'd in part, 594 F.2d 979 (4th Cir. 1979), cert. denied, 444 U.S. 1015 (1980); Digidyne Corp. v. Data Gen. Corp., 734 F.2d 1336, 1341-42 (9th Cir. 1984), cert. denied, 473 U.S. 408 (1985); see George R. Whitten, Jr., Inc. v. Paddock Pool Builders, Inc., 424 F.2d 25, 36 (1st Cir.), cert. denied, 400 U.S. 850 (1970).

[9] Loctite Corp. v. Ultraseal, Ltd., 781 F.2d 861, 875 (Fed. Cir. 1985).

[10] Abbott Labs v. Brennan, 952 F.2d 1346, 1354 (Fed. Cir. 1991) (applying law of Sixth Circuit, which rejects presumption), cert. denied, 505 U.S. 1205 (1992); compare Atari Games Corp. v. Nintendo of America, Inc.,897 F.2d 1572, 1576 (Fed. Cir. 1990) (applying law of Ninth Circuit, which endorses presumption).

A blanket presumption of market power for intellectual property bears no actual relationship to the real world. In all but the rarest of cases in our economy, products and methods compete with other products and methods that affect their market price. Thus, even if an intellectual property owner has the sole right to a particular product or method, that says nothing about how much competition that particular product or method faces from other products or methods that may be reasonably interchangeable and frequently are numerous. Consequently, the AIPLA agrees with the concurring opinion of Justice O'Connor in Jefferson Parish, circuit courts of appeals that reject that presumption, and the Justice Department and Federal Trade Commission,[11] that no market power presumption should exist for intellectual property.

Moreover, such a presumption can have negative effects. By skewing the rules to make it easier to prove an antitrust violation where intellectual property rights are involved than where such rights are not involved, such a presumption increases the risk and thereby diminishes the value of the intellectual property right to exclude. In diminishing that value, the presumption for no justifiable reason decreases the incentives to develop and disseminate to others (*e.g.*, through licensing) technology worthy of intellectual property protection. The AIPLA strongly believes, however, that the full incentives to develop and disseminate intellectual property should be preserved in order to stimulate and promote the greatest creation and use of technology in our economy to make our economy more competitive.

Although only certain circuit courts of appeals endorse the presumption, an intellectual property owner typically will face the risk of being sued in one of those circuits. Consequently, the value of the intellectual property is diminished as long as any court of appeals endorses the presumption.

We are not aware of any judicial or other precedent that the mere ownership of any other type of asset creates a presumption of market power, and believe that Congress should subject intellectual property to the same market power tests applicable to other assets. Accordingly, the AIPLA agrees wholeheartedly with the proposed legislation to uniformly reject the market power presumption for intellectual property.

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[11] The Antitrust Guidelines for the Licensing of Intellectual Property issued by the U.S. Department of Justice and Federal Trade Commission, 1995 WL 229332 (April 6, 1995) provide, in pertinent part:

> The Agencies will not presume that a patent, copyright, or trade secret necessarily confers market power upon its owner. Although the intellectual property right confers the power to exclude with respect to the specific product, process, or work in question, there will often be sufficient actual or potential close substitutes for such product, process, or work to prevent the exercise of market power.

Guidelines, § 2.2.

In addition, the AIPLA has a suggestion in accord with the premise of the bill. The AIPLA believes that no market power presumption should exist with regard to the licensing of intellectual property for the reasons explained above and to ensure that different standards do not apply to similar issues. As currently drafted, the bill would preclude a presumption of market power where the intellectual property right is being used in connection with the "marketing or distribution of a product or service protected by such a right." H.R. 2674, § 2. Many transactions, however, involve licensing of intellectual property for which no product or service yet exists, such as in licensing the potential fruits of a research and development effort. In order to ensure that no market power presumption exists for such transactions, the bill should also expressly apply to cases in which the conduct alleged to violate the antitrust laws is conduct in connection with the licensing of intellectual property.

For the reasons explained, the AIPLA concurs with the proposed legislation and suggests an additional modification to fully implement its purposes. Your consideration of these comments is appreciated.

Sincerely,

Michael K Kirk

Michael K. Kirk
Executive Director

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